

B U S I N E S S O R G A N I S A T I O N

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To
Late DR. P. DATTA, M.A., Ph.D. (Econ. London)

PREFACE

I sincerely apologise for the delay in bringing out the present edition of the book. It has had to be largely re-written with a view to meeting the changes in Companies Act, economic development and University syllabuses. Old chapters have been recast in the light of latest developments. A detailed analysis about the Companies Act has been made. New chapters have been written to incorporate information, especially concerning the syllabus which has been prescribed for the three-year degree course.

Attempts have been made to make the book useful for students as well as businessmen. The syllabuses of all Indian Universities and various examinations on the subject have been fully covered. Typical university questions have been given at the end of each chapter. As it has been written from a practical point of view, businessmen will find it very helpful. Business principles, practices and procedures have been fully described and critically analysed. The book has been illustrated with numerous diagrams, charts, forms, figures etc.

I am grateful to those who have made a success of this humble work by their kind patronage and helpful criticism. I am obliged to Mr. A. K. Sur for his valuable suggestions.

AUTHOR.

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CHAPTER I

INTRODUCTORY

Economics and Commerce

Economics is a social science because it is a study of mankind in connection with wealth. Man has many activities, of which Economics is concerned with those which relate to acquiring and spending wealth.

Commerce deals with human activities concerning the buying and selling of economic commodities or wealth. Commerce is closely linked with Economics. Economics is a broader science than Commerce, as it deals with theories and practices concerning wealth, while Commerce is a branch of Economics which deals with the exchange of commodities. Economics is a study of wealth from the standpoint of individuals, nations and world, while Commerce is a study of wealth from the standpoint of a business man and it is, therefore, called Business Economics. Commerce has a practical bias.

Economics and Business

Business activity springs from demand for economic goods and services. Economic goods include food, clothing, factory machinery, coal, etc., and economic services consist of organised transportation, communication and amusement. A business enterprise seeks to earn profits by exchanging goods and services for money, but some exchange of goods or services may not constitute business. Government, for example, provides certain services for which people pay taxes. Normal Government activity does not constitute business, as the object of Government is not to make profits. Household services do not constitute business. Business includes activities of enterprises, such as retail stores, banks, manufacturing firms, railways, mines, farms, etc. Such activity is undertaken to make profits for the owners.

Business is a broader term than commerce, and includes commerce and industry in various forms. Economics studies production, distribution and consumption of wealth while business

is concerned with the practical application of the theories of Economics. Business is concerned with the practical side of Economics, and a knowledge of Economics is therefore vital for a business man. A business man implements in practice the theories of Economics in the course of his occupation. Economics can help him understand the principles underlying his work, methods and practices. Economics enables him to understand the scientific working of a business, and plan his activity in such a way that it is conducted on scientific and profitable lines. It helps him analyse the intricacies and mysteries of business in a fruitful way.

Industry, Commerce and Trade

Industry and production in Economics mean virtually the same thing. Industry means the production of wealth or value. It includes manufacture, agriculture, mining, fishery, forestry, merchandise, transportation, etc.

Industry is concerned with the discovery and utilisation of wealth—mineral, animal and vegetable. It is called extractive, if it includes mining, fishing, hunting and agriculture. Industry also includes human activity concerned with changing the form of raw materials. Then it is called manufacture and construction. Industry is called commerce when it is concerned with the exchange and distribution of commodities.

Trade is a branch of commerce. It is a technical process which is concerned with the exchange of commodities. The function of a trader is to act as an intermediary for transferring commodities from a producer to a consumer. A trader is needed for exchanging commodities. Many obstacles have to be overcome in passing goods from a producer to a consumer. These barriers are surmounted with the help of bank, finance, credit, transport, insurance. Provision for storage must be made.

Industry and trade is concerned with economic activity. Economic values produced by industry are increased by trade through the transfer of goods from producers to consumers.

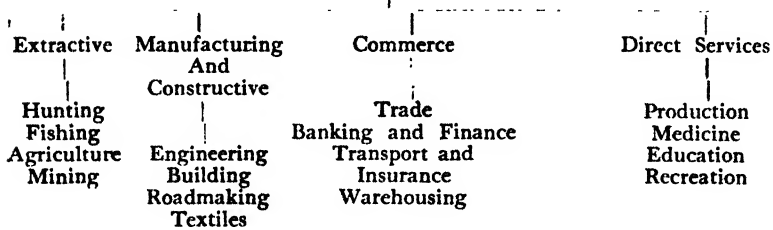
When an exchange of commodities takes place within a country, it is called home trade; when it is extended among different countries it is called foreign trade. Import trade means bringing foreign goods into a country, while export trade con-

sists of sending goods to foreign countries. Trade may be wholesale or retail. In wholesale trade, a merchant buys goods in bulk for selling them to ordinary dealers or shopkeepers. The retail dealers or traders buy goods from wholesalers, and sell them to consumers. Traders are middlemen but they are necessary in the modern economic system which offers keen competition to producers and consumers scattered throughout the world.

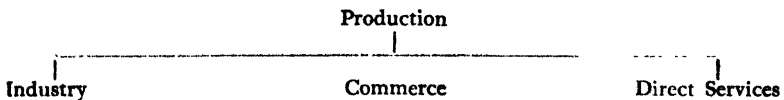
Industry consists of services which contribute to the efficiency of human beings. No nation or individual can have efficiency unless living conditions are reasonably comfortable. The army, navy, police, and fire brigade help maintain internal and external peace. The services of physicians, surgeons and dentists cannot be ignored. The provision for education is necessary. There are agencies which provide recreation in many forms.

The Place of Commerce in Industry

Human Wants as Satisfied by Production
Through Industry



The term 'industry' is sometimes used to describe industrial processes, such as extractive and manufacturing. In that case, the analysis of production is as follows:—



Business Organisation

Business denotes human activities which produce or acquire wealth through buying or selling goods. People do business for making money, and money-making involves the production of commodities which human beings want. A business man is either engaged in the technical process of production or in judging the market. He is engaged in buying and selling goods for

making gains. Business is based on an exchange of commodities, which is advantageous to the exchanger and exchangee.

Business may be considered from the social and individual standpoint. The former is productive if it adds to the net amount of goods and services. Business from the individual point of view also includes activities which may not increase goods and services, such as advertising, which may consist of gaining for one business man what another loses. An advertising agent acts as a middleman. He is paid for his services and makes money.

Business organisation brings about a harmonious working of the factors, such as land, labour and capital, for producing or acquiring wealth. For coordinating them in work, a fourth factor, business enterprise or entrepreneurial ability, is required.

A study of business organisation trains an individual for business. A knowledge of theory is important for a business man. People may be successful in business without having any theoretical knowledge but its importance cannot be ignored. Theoretical knowledge by itself may not be enough, but it helps a business man. With the growing complexities of business, a study of business and its organisation is important. Production (with factory organisation, scientific management of labour and rationalisation of industries), internal trade (with transport problems, warehousing facilities, departmental stores, multiple shops and hire purchase system), international trade (with restrictions and regulations and comparative costs of production), intricate problems of currency, banking and exchange unfold their mysteries to a business man, who has theoretical training. A study of theories and practices of commerce, trade and industry helps a business man see things in their proper perspectives. It assists him to plan economic projects with foresight and statesmanship. It helps him understand the forces which operate in practical life. It equips him with knowledge for understanding the impacts and implications of the tendencies which work in business.

Business is an important profession. Knowledge is helpful for success in business management. It is not always acquired from experience. It may be acquired by a systematic study under competent leadership. A high position in business requires a sound study of business organisation. Facts relating to the internal organisation and direction of a business enterprise should be studied. The service to be given to society has to be studied.

Government controls in business must be understood. Public relations, industrial relations, and civic responsibilities should be included in such a study.

A successful business man makes profits by earning an income in excess of his expenses. In order to understand costs and financial position, a study of accountancy and audit is helpful. Although accounts can be made by the staff, its knowledge will enable a business man to exercise checks and balances.

Business Management

When a business is organised it has to be managed properly. The management may be entrusted in the hands of a single person or a body of persons. The top management is usually vested with the control of the business. The Chief Executive usually exercises his control by delegating his authority to the subordinates. He is mainly concerned with laying down the general policies of the business. His job is to ensure that his subordinates work as a team in order to fulfil the objectives which are set.

A Business Career

Business is a good occupation. Young men are therefore keen to know the requisites for a successful business career. Although it is difficult to state outright all the qualifications necessary for business life, it is possible to indicate in broad outline the fundamental principles.

Success in business calls for strenuous and sincere work. One must have perseverance and tenacity. Honesty is essential.

It is wrong if anybody wants to become rich quickly in business. A good business grows from within through trials and errors. Hence it is preferable that a business career be started from small beginning.

A certain amount of capital is required in the initial stage but a good business man will scarcely fail to make progress because of the lack of financial resources. If a person proves in practice that he has qualities of a business man, he is likely to have little difficulty in procuring finance from banks, finance houses, joint-stock companies, etc.

Qualities of Business Executives

The following qualities are necessary for a business executive:

1. Ability to understand and interpret the operations of a company.
2. Ability to foresee opportunities as well as dangers in time.
3. Ability to make well-balanced decisions and judgment.
4. Ability to think analytically and understand problems correctly.
5. Ability to think imaginatively and produce ideas concerning a business situation.
6. An executive must have personality for inspiring confidence in the staff.

Modern Business Activity

The modern concept of a business is based on individual and social ideas. No business now can be conducted exclusively for the benefit of a single individual or a group of individuals because every business has a social aspect. Although every business is usually run with a view to making profits, it is generally expected that in the process of making profits it also serves social ends. No business can flourish unless it fits in with the social objectives. A business should be run in order to increase the welfare of the country in which the business is situated.

Business Organisation in India

India has a mixed economy. The private and public sectors are doing business side by side. As India is wedded to a socialistic pattern of society, private enterprises are regulated and controlled. Although the organisation of private and public enterprises is similar in many respects, there are also basic differences between the two sectors. A private business is responsible to its owner who may be an individual or a group of individuals. A government enterprise is responsible to Parliament. Hence the organisation of public enterprises is more complex. A public undertaking has to ensure its accountability to Parliament. As a result, it is difficult to provide enough scope for private initiative in a public undertaking.

Wealth

Wealth in Economics denotes commodities which have value in exchange. A commodity must have utility, scarcity and transferability. Economic wealth therefore includes goods which are limited in quantity, in relation to demand. It must satisfy human wants and should be capable of being transferred from one person to another.

Production

Production in Economics means providing utility, which has value in exchange. It is not possible to create or destroy any matter. In producing an economic commodity, human beings change the matter by re-arrangement.

Distribution

Before production is used by consumers, it passes through several hands. Producers are not usually consumers of their goods. Hence production is distributed among consumers through various processes.

Production, distribution and consumption constitute the main divisions of Economics, and business organisation deals with the practical side of Economics.

Consumption

Consumption denotes destruction or consumption of utility, which is produced. It means the satisfaction of human needs. It increases human welfare.

Agents of Production

In production, the harmonious co-operation and working of the four factors, such as land, labour, capital and organisation, are involved.

Land

Land includes all natural resources and forces which are the free gifts of nature, requiring no human assistance.

The Law of Diminishing Return

In the cultivation of land, the law of diminishing return operates. An increase in the amount of labour and capital applied in equal and successive doses in cultivation causes a less than proportionate increase in the amount of output, provided it does not coincide with an improvement in the technique of cultivation.

Labour

Labour denotes human efforts of body or mind, directed towards producing wealth. If it succeeds in producing wealth it becomes productive labour. If it fails to do so it becomes unproductive.

Division of Labour

The division of labour implies the distribution of man-power in a community for obtaining the maximum production and for improving the quality of the output. It denotes division of work in order to allow everybody to concentrate on the work which suits him best. It leads to specialisation.

Division of labour increases skill and dexterity of workers through the repetition of work. The physical fatigue of workers is relieved. Time is saved in learning a process. Work is reduced to a routine and it becomes possible to introduce machinery extensively and efficiently. The mobility of labour is encouraged. It leads to the maximum utilisation of labour by employing everyone on a job which suits him best. It helps the localisation of industry. But it is responsible for the evils of the factory system. Repetition makes work monotonous. Specialisation narrows the outlook of workers and makes labour immobile. It destroys personal touches between a worker and an employer. It promotes the cash nexus system.

Localisation of Industries

Division of labour denotes specialisation among workers but the localisation of industry means specialisation as applied to localities. Some areas specialise in the production of commodities, such as the jute industry in West Bengal.

Contributing to the localisation of industry is accessibility to raw materials and markets. The development of transport has nevertheless reduced its importance. The proximity to power is also a contributing factor. The iron and steel industry develops around coal areas. The introduction of electricity and oil minimises the importance of coal. Royal and Court patronages have caused the localisation of industry, such as the silk industry of England and the muslin industry of Dacca in East Pakistan.

The localisation of industry helps create a generation of skilled workers and develops subsidiary industries. If industries are localised in an area, they tend to stay there. If an industry is localised in a particular area, it suffers when depression occurs.

Regional Development

If factors contributing to the localisation of industry change because of natural forces or invention, economic advantages can be obtained by a planned regional development of industries. It is claimed that the output of sugar can be increased if mills are shifted from Uttar Pradesh and Bihar to southern and western India. The dispersal of industries on a sound basis may improve the efficiency and increase employment. Government is taking steps to encourage the regional development of industries.

Capital

Capital denotes wealth which is used for the production of further wealth. It is the product of labour and saving. It is saved from wealth or production.

Fixed Capital

Fixed capital is found in a durable form. It is not exhausted by a single use and it can be used repeatedly. Buildings and machinery are examples of fixed capital.

Circulating Capital

Circulating capital is used by a single use in the process of production. Raw materials are usually used once in producing further wealth.

The Function of Capital

Capital helps production. First, it provides mankind with food, clothing and shelter. Secondly, it helps supply appliances, instruments and machinery. Thirdly, it provides raw materials for industry.

Accumulation of Capital

As capital is saved out of wealth, it is necessary to save for accumulating capital. Two conditions are necessary for saving. There must be a will to save, which is found in the form of family affection, provision for old age, security of life, safety of saving, stability of Governments, reasonable rates of interest, etc. There must also be the power to save. Before anybody can save it is necessary that he has a surplus of income over necessities of life. Formerly, it was thought that people saved by sacrificing pleasure, hence capital was the result of sacrifice. At present the majority of savings in society are made from surpluses of income. Hence saving springs from waiting.

Organisation

In production, land, labour and capital are required, but they cannot produce unless they are brought together for work. The work of organising is entrusted in the hands of business enterprisers or entrepreneurs.

The entrepreneur's task is to organise labour and capital for producing maximum results. He allocates to factors of production their legitimate remuneration. Land is to be paid rent, labour wages, capital interest, and the remainder is retained by him as his share of the remuneration.

The entrepreneur anticipates and forecasts demand ; he plans production ; he is responsible for selecting the site of the factory, its equipment and organisation. He organises sales. He is entrusted with the management of industry and labour. He disciplines the mechanism of production. He employs workers under satisfactory conditions. He pays attention for keeping the industrial machinery free from conflicts between labour and capital.

Entrepreneurs undertake risks of production by supplying capital. Capital is usually provided by a number of shareholders

through public limited companies. The entrepreneur organises the business.

There must be ideas for running a concern. An entrepreneur does not work for only profits. He is responsible for organising. His qualifications should include:—

- (1) Flair for detail.
- (2) Mind for tackling intricate problems and acting quickly in an emergency.
- (3) Ability for delegating responsibility.
- (4) Quickness for grasping an opportunity and sizing up possibilities. He must have character, determination, tact, tolerance and reasonableness.

Large-Scale Production

Production may be small-scale and large-scale. The size of an industry is influenced by demand. Extractive industries, such as agriculture and farming in which the law of diminishing return operates, are suitable for small-scale production. Manufacturing and constructive industries are organised on a large-scale. Large-scale production is suitable when demand is steady, standardised or big. If demand is erratic or spasmodic or individual tastes and fashions are to be satisfied, small-scale production is suitable. Industries, such as railways, steamship companies, iron and steel industries requiring big capital, should be organised on a large-scale.

Advantages of Large-Scale Production

Advantages of the division of labour, material and supplies are obtained from large-scale production. A maximum utilisation of products is possible in large-scale production. If transactions are done on a big scale, attractive terms may be obtained in purchases and sales. Cheap rates may be obtained in transport, insurance, etc. A big unit may use modern and expensive machinery and implements. Fixed charges, such as rent, may be low. Advertising and publicity may be made. Research and experiment are possible. A large-scale producer utilises skilled labour.

Disadvantages of Large-Scale Production

Large-scale production lacks in personal touch and attention. Employers, employees and customers have no personal contacts

with one another, and relationship is based on cash nexus. The management is departmentalised, concentrated, and it encourages red-tapism. As elaborate systems of checks and balances are required, an owner cannot attend to details, and the work has to be done by salaried staff. Large-scale production may build monopolies.

Laws of Increasing, Decreasing and Constant Returns

If labour and capital applied in successive instalments produce proportionately greater return, it is an example of an increasing return industry. If successive units of labour and capital applied in production result in less than proportionate return, it is a case of a diminishing return industry. If the return is constant, it is a constant return industry.

Limitations on Size of Business Units

The size of an industrial unit has to be adjusted if economic advantages are to be ensured. There is optimum growth of a business. If the maximum productivity point is reached, further expansion becomes uneconomic. Then further application of labour and capital will lead to diminishing return. The limitation on the growth of an industrial unit springs from the difficulty of management. If the size of an industrial unit is big, management and supervision become difficult and expensive. Costs of production increase. Hence business unit can expand up to a certain point.

Proprietary or Personal Business

In a proprietary business, an individual is the sole proprietor. He manages and controls the business. He supplies capital or borrows it on his responsibility. He is responsible for an unlimited amount which may extend up to his private properties. As responsibility and ownership of capital are combined in a personal business, it is cautious, prudent and conservative. An individual exercises direct personal supervision. There is therefore economy and efficiency. A proprietary business is limited, as a single man can have capital up to a limited amount. In a proprietary business

personal supervision and contact are important. Decisions are made quickly in a personal business.

Advantages of Individual Proprietorship

A proprietary business can be formed and operated easily. Anybody legally entitled to make a contract may start such a business. The organisation and operation costs are small. It develops initiative, self-reliance and independence. It provides incentives. The flexibility and directness of control are notable features of such an organisation. The secrecy of methods and processes is maintained. The unlimited liability helps obtain credit for the business.

Disadvantages of Individual Proprietorship

A proprietary business derives its legal status from the proprietor. The unlimited liability is a big risk. There is a lack of durability and stability in such an organisation. The success of such a business depends on judgment and skill.

Partnership

In partnership many individuals associate together for making profits. Partners are responsible in the business to an unlimited extent. They contribute capital and labour to the business, and are remunerated according to an agreement among themselves.

Advantages of Partnerships

The unlimited liability is a safeguard against risky ventures. It promotes conservatism and caution. A partnership firm can be formed and dissolved without much legal formality. It is elastic, and may take new partners if required. Like a proprietary business, it combines the ownership of capital with responsibility.

Disadvantages of Partnership

The absence of publicity reduces the credit of a partnership business. The unlimited liability makes it unsuitable for risk-bearing enterprises. A partnership business may be liquidated

by the death, bankruptcy or retirement of a partner. Disputes may ruin business. A partnership is not adequate to finance big undertakings. The joint-stock company principle of business is suited to a big enterprise.

Joint-Stock Companies

Capital in a joint-stock company is contributed by many shareholders. They are liable to pay for their shares. They control the company through a board of directors, who are usually elected from themselves.

Advantages of Joint-Stock Companies

The limited liability of a company encourages investment and distributes risks. It is therefore suitable for raising a substantial amount of capital. Shares being marketable, are useful for channelling savings. A company enables an entrepreneur to organise a business, although he may not possess the capital. A joint-stock company helps maintain business on a stable basis. It helps maintain the continuity of policy and administration. Vacancy caused by the death of a manager can be replaced by recruiting a new man. A company helps obtain capital even if the return is delayed. By spreading risks it can experiment with new lines. The law provides for the publicity of a company. Hence it is suited to banking, insurance and public utility concerns.

Disadvantages of Joint-Stock Companies

A company may slip into the hands of unscrupulous promoters. The board of directors manage a company. Hence decisions are made slowly. Disagreement among directors may hamper business. A company principle of business introduces democracy in management when shareholders take active interest but the majority of shareholders do not usually take much interest. A company is therefore managed by a few interested persons.

Joint-Stock Companies not always large

Joint-Stock companies need not be always big. They may be small to transact business on a limited scale.

A proprietary or partnership business may be converted into

a joint-stock company. The conversion may take place for expanding the size of the business. A company may also be formed to avoid the unlimited liability. When a business expands and personal supervision becomes difficult, such conversion is desirable. The conversion may occur to evade taxation.

Cooperative Form of Organisation

Business may be organised on a co-operative basis. In a co-operative organisation there is no class as far as the management of the business is concerned. Those who build a co-operative type of business institution become its owners as well as workers. The advantage of this type of organisation is that it is usually free from conflicts between an employer and a worker. But it suffers in competition with other business because a co-operative organisation has hardly the necessary talent and experience. It is also likely to face financial difficulty because members of a co-operative organisation are usually persons with limited resources. In order to encourage co-operative enterprises the Indian Government gives them many incentives in the form of financial and marketing facilities. They are being provided with raw materials and storage facilities. Co-operative institutions are governed by the co-operative law, so they enjoy many advantages and immunities in comparison with limited companies.

Questions

1. Explain how a study of the principles of Economics may help a businessman in organizing his business on scientific and profitable lines.
(B. Com. Cal., 1938).
2. What are the four economic factors of production?
(B. Com. Cal., 1940).
3. 'Just as Economics is a part of the study of Sociology, so Commerce is a section of economic study.' Explain this statement.
(B. Com. Cal., 1939).
4. If you have to select a site for the location of a factory, what factors would you take into consideration?
(M. Com. Cal., 1954).
5. State the important distinction between a Partnership Firm and a Joint Stock Company. State shortly the advantages of the latter over the former.
(B. Com. Cal., 1926).
6. Describe the function of Capital in modern Industry and Commerce.
(B. Com. Cal., 1924).

7. What are the factors upon which the limit to the size of a business organisation will depend? Explain how they act.
(M.A. Com. Cal., 1929).
 8. How far would you consider a theoretical training necessary and sufficient for success in a practical business career?
(B. Com. Bom., 1942).
 9. Trade and Industries are said to have Economic basis. Explain clearly what is meant by this statement and give illustrations.
(B. Com. Cal., 1941).
 10. In many instances it has been noticed that a Sole Proprietorship, or Partnership after some years of its existence has been converted into a Limited Company. Explain the various reasons which might have prompted this conversion.
(B. Com. Cal., 1935).
 11. What are the essential requisites for the success of a business?
(All. B. Com., 1939).
 12. Write an essay on discipline, courtesy and manners and their importance in modern commerce and industry.
(B. Com. Cal., 1951).
 13. "The one man control is the best in the world if that one man is big enough to manage everything." Examine this statement.
(B. Com. Cal., 1953, 1956).
 14. What advantages does a limited company possess over other forms of business organisations?
(B. Com. Cal., 1953).
 15. Discuss carefully how a study of "Business Organisation" is of help in making forecasts about market trends.
(Burdwan University, 1962).
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CHAPTER II

PARTNERSHIP

Partnership in India is regulated by the Indian Partnership Act (IX of 1932). A partnership means the relation existing among persons who agree to share the profits of a business, carried by all or by any of them acting for all. It is the result of an agreement among a number of persons. Such an agreement must be made for sharing the profits of a business and the business must be transacted by all or by any of them acting for all. A partnership is therefore an agreement between two persons, at least.

Firm and Firm Name

The body of persons who combine for doing business constitute a 'firm'. The name in which the business is transacted is called the 'firm name'. In law the firm is not regarded as distinct from the partners, although they can file a suit in the firm name and can be sued in the firm name.

When a firm name is registered it must not contain words like 'Crown', 'Royal', 'King', etc., showing royal or government patronage except with the written consent of the Government. A firm name should not mislead anybody to the effect that it is another firm.

Partnership and Hindu Joint Family

A partnership arises out of a contractual agreement among a number of persons and not due to status. Members of an undivided Hindu family transacting a joint family business are not necessarily partners. Members of a Hindu family acquire interest in a family business by virtue of their birth and not by a contract. But there can be a partnership between members of a joint Hindu family, if it is contractually constituted.

Registered Partnership

A partnership firm can be registered with the Registrar of Partnerships at the option of the partners. The registration can

be effected at any time by sending to the Registrar a statement in a prescribed form, containing the firm's name, the principal place of business, names of other places of business, the date of each partner joining, the name and full permanent addresses of the partners and the duration of the firm. Any change in the items must be notified to the Registrar. Anybody is entitled to inspect the records kept by the Registrar, containing information relating to the partnership business.

The principle underlying registration is to discourage fraud and misrepresentation against a third party. • Registration is encouraged by imposing a number of legal consequences on a non-registered firm.

A partner cannot file a suit for enforcing a right arising from a contract against other partners, unless the firm is registered. Registration is required in cases of suits arising from contracts. A suit cannot be filed by a firm against third parties for enforcing a right arising from a contract, unless the firm is registered.

Such rules do not, however, apply to a suit for the dissolution of a firm, for accounts of a dissolved firm and for the realisation of the properties of a dissolved firm.

Kinds of Partnership

Partnership can be a partnership at will or it can be a partnership for a fixed term. It is called partnership at will, if there is any provision for the duration of the partnership or for its determination. Such a partnership can be dissolved by a simple notice in writing, while the other kind of partnership can be dissolved only under certain conditions.

Duties of Partners

Partners are obliged to transact business for the firm in their own interests. They must be just and faithful to one another and they are obliged to produce true accounts and information relating to the firm.

A partner is obliged to indemnify the firm for any loss caused by his fraud in the conduct of the firm's business.

This apart, the rights and duties of partners may be determined by a contract among partners. Such an agreement among partners is called 'Partnership Articles.' The contract may be in

writing or it may be oral. It may also be implied from dealings among them. A contract can be varied by the consent of all partners.

Rights of Partners

Subject to a contract among the partners, every partner is entitled to take part in the business of the firm. He is obliged to attend diligently to the business. If there is a difference among the partners relating to the business of the firm, it shall be resolved by the majority of partners. But no change in the business of the firm can be introduced without the consent of all partners. Every partner is entitled to have free access to the books of accounts.

A partner can claim remuneration for doing the business of the firm. Partners share profits of the firm equally and they share losses equally. If interest is payable to a partner on the capital subscribed by him, it is payable out of the profits only. If advances are made by a partner to the firm, apart from his capital contribution, he is entitled to claim interest of 6% per year on advances.

A partnership firm is obliged to indemnify a partner in respect of payments made and liabilities incurred by him in the conduct of the ordinary business of the firm and for acting during an emergency for protecting the firm from any loss. In such an event a partner must act as a prudent man. A partner is also obliged to indemnify the firm for a loss caused by his wilful neglect in the conduct of the business.

A partner cannot derive any profit for himself out of the partnership transaction. A partner cannot carry on business of the same nature as that of the firm in his own name.

A partner is considered an agent of the partnership firm for all purposes in conducting the business. A partner's authority may be express or implied. If a partner acts in the usual way for the business of the firm, the firm is bound by his action.

A partner is jointly and severally liable for all acts of the firm as long as he is a partner. So the liability of a partner for partnership debts is joint and several.

In the case of a partnership by holding out or a partnership by estoppel, a person representing himself or knowingly permitting

himself to be represented as a partner in a firm, is liable as a partner of the firm.

Subject to a contract among the partners, no new partner can be introduced into a firm without the consent of all partners.

A partner may retire with the consent of all partners by virtue of an express agreement among the partners. A partner can do so in the case of a partnership at will by giving notice in writing to all other partners of his intention to retire. Such a partner continues to remain liable to third parties for acts of the firm after his retirement until public notice of his retirement is given either by himself or by other partners.

A partner cannot be expelled from the partnership by the majority of partners unless the partnership deed gives power to do so. If a partner is adjudicated insolvent, he ceases to be a partner from the date of the adjudication order. On the death of a partner his estate ceases to be liable for acts of the firm done after such a date, if the partnership agreement provides that death dissolves the partnership.

Dissolution of Partnership

A partnership may be dissolved by mutual consent, notice of dissolution, operation of law, happening of certain contingencies and decree of the court. A partnership may be dissolved with the consent of all partners or in accordance with the contract among partners. In case of partnership at will, it may be dissolved by any partner giving notice in writing to other partners of his intention to do so. A partnership firm is dissolved by the adjudication of all or all but one of the partners as insolvent. It may be dissolved by the happening of an event which makes the carrying on of the partnership business unlawful. Subject to a contract among partners a partnership may be dissolved on the expiry of the term, if such a partnership is constituted for a fixed term. It may be dissolved on the completion of the adventure for which a partnership is formed. It may be dissolved by the death of a partner or by a partner being adjudicated insolvent. A court may dissolve a partnership under certain conditions.

Settlement of Partnership Accounts

Subject to an agreement among partners losses in the event of a dissolution of a partnership must be paid first from profits,

next out of the capital and then, if necessary, by contribution of each partner in proportion to his share in profits. The assets of the firm shall be applied for repaying debts of the firm to outsiders, for paying each partner rateably for advances made by him to the firm as distinct from the capital, for paying each partner rateably for paying amounts due for the capital contribution and the remainder is utilised for paying each partner in accordance with his share in profits of the firm.

In the case of a dissolved partnership, losses are to be borne equally by partners. If profits are not equally divided losses are also divided in the same proportion. The liability to share losses may be excluded by a special agreement. If the contributions to capital are unequal but the partners share the profits equally, then all partners are obliged to contribute equally in the event of a capital deficiency. The assets of the firm will be applied for paying each partner his dues rateably on account of the capital.

Articles of Partnership

It is not obligatory to have a partnership in writing but it is advisable to do so for avoiding future troubles and disputes. In the absence of anything in writing, it is difficult to prove any matter conclusively and complications may develop. So a partnership should be formed by a written agreement, called the Articles of Partnership which define mutual relations among partners. The partnership contract usually contains the following particulars:

1. Name of the firm.
2. Name of the business.
3. Period during which partnership is to last, if it is fixed.
4. How capital is to be provided.
5. Provision for expenses and profits.
6. How management is to be made.
7. Keeping accounts and audits.
8. How bank accounts are to be kept.
9. Authority for signing cheques and other important documents.
10. Provision in the event of death or retirement of any partner.
11. Provision for arbitration in the case of disputes among partners.

12. Arrangement for settlement in the case of dissolution of the partnership.

• Articles of Partnership can be altered with the consent of all partners. A new partner may be admitted into a partnership firm, provided all other partners agree. Even the transferee of a partner's share does not become a partner unless the other partners agree, although he is entitled to claim, as an assignee, properties on dissolution. Partnership firms may charge money from a new partner as an entrance fee, which is called "premium".

Although he is not really a partner, a person is deemed to be so in law if he acts or represents himself in such a way as to give an impression that he is a partner. Such a partner is sometimes known as a "*quasi partner*". In that event, it is immaterial whether he has any real interest in the business or not. He is called a "*nominal partner*", if he has no real interest in the business. A "*dormant partner*" is not known to the outside world but he possesses interest in the business and shares profits. A "*sleeping partner*" contributes capital to the business but he does not take active interest in the management.

Partners and Third Party

Partners are bound by Articles of Partnership but outsiders who do not know these Articles are not bound by them. An act of a partner within the scope of the business is binding upon other partners, unless a third party knows that such action is prohibited. A partner is an agent of the firm, and can bind the firm by an act, which is done for carrying on the business of the firm. The action must be done in the firm's name, and in the bonafide interests of the firm. An act done by a partner falling outside the scope of the partnership business does not bind the firm, unless it is ratified later by other partners. A partner is vested by statute with certain emergency powers which he may be required to exercise for the preservation of the business or properties of the firm against any loss so long as he acts like a prudent and normal person.

A partner has an *implied authority* for doing anything which is ancillary to the normal business of the firm. Such an implied authority in the absence of an usage or custom of trade to the contrary, does not cover submitting a dispute to an arbitration,

opening of an account in a bank in the name of a partner, admitting any liability against the firm, entering into partnership with someone on behalf of the firm, etc.

Rights of Creditors after Dissolution

The assets of a partnership firm, including its property, are applied for paying the debts and liabilities of the firm. Assets include the goodwill of the firm. When there are joint debts due from the firm, and individual debts due from any individual partner, the property of the firm is applied first for the settlement of the debts of the firm, and if there is any surplus it is applied for repaying individual debts. Similarly, individual property is applied first for repaying individual debts, and if there is a surplus, it is applied for settling the debts of the firm. The partners continue to remain liable to third parties for acts of the firm even after dissolution, unless a public notice is issued to that effect. A partner's liability continues even after such a notice, for acts of any other partner if such acts are necessary for settling or liquidating partnership affairs. Losses in partnership business are met first out of profits, and then they are settled out of the capital.

Partner's position after Dissolution

A partner is entitled to the return of his "premium", if the partnership is dissolved before the expiration of the period for which it is intended to last. Nothing is returnable if the dissolution takes place because of his misconduct or fault, or if dissolution occurs after an agreement, which does not provide for the return of the premium. If the partnership is dissolved for fraud or misrepresentation, the aggrieved party is entitled to a return of his premium and capital after meeting the partner's liabilities. He may also claim indemnification against payments made by him in respect of the partnership liabilities.

Retirement of a Partner

A partner may retire with the consent of all other partners, according to the Articles of Partnership, or by simply giving notice to all other partners of his intention to retire if partnership at will exists. His retirement does not necessarily mean the dissolution of partnership. A retiring partner is liable for existing

liabilities, unless he is freed from them by an agreement, express or implied. No further liability attracts a retiring partner, if a public notice of his retirement is given.

Expulsion of a Partner

A partner cannot be expelled from a firm, unless such a contingency is expressly provided for in the articles of partnership. The liabilities of an expelled partner are similar to those of a retired partner.

Limited Partnership

Limited partnership in the United Kingdom is regulated by the Partnership Act, 1890 and the Limited Partnerships Act, 1907. Limited partnership is not allowed in India. Limited partnership is formed with a maximum of twenty persons, or by ten persons in the case of a banking business. In such a business the liability of some partners is limited to the capital, which they agree to contribute. In such an event there must be at least one partner, whose liability must be unlimited.

The rights and liabilities of a limited partner are restricted. He cannot take part in the management of the firm. If he does so, his liability will be unlimited for transactions done during his management. He may give advice in business. He may inspect the books of the business. He cannot take out or receive back any portion of his capital contribution, although he may assign his share in business with the consent of the unlimited liability partners. The lunacy, bankruptcy or death of a limited partner does not dissolve a partnership, although lunacy may be a ground for dissolution if his share cannot be ascertained and assigned. The unlimited liability partners may wind up the business, unless a court issues orders to the contrary. A limited partnership must be registered or the partnership will be considered a regular one.

Criticism of Limited Partnership

Limited partnership is helpful for persuading a capitalist to invest money without risks, as the liability of a limited partner is restricted to the amount of capital he agrees to contribute. He

can share profits without incurring unlimited risks. Limited partnership may, therefore, attract capital without formalities. Death, bankruptcy or lunacy of a limited partner does not necessarily result in the dissolution of the firm. A limited partner has a number of disadvantages. He cannot take part in the management. His consent is not required for taking a new partner. He cannot withdraw his capital if it is invested. Limited partnership has to be publicised. Hence secrecy cannot be maintained. Anybody can inspect the books of such a business on the payment of prescribed fees.

Limited Partnership Compared with Companies

A limited partnership is similar to a private limited company. Although no legal formality is required for formation and working, limited partnerships are less popular than private limited companies. If further capital is required, private companies are formed. They can be formed with a minimum of two persons and with a maximum of fifty persons. The liability of members in a private company is limited up to their share value. The shareholders have say in the management and a certain amount of publicity is assured by the Companies Act. A limited partnership can be dissolved under certain circumstances but a private company is more stable as the latter is made by law and can be ended by statute only.

Questions

1. You contemplate starting a business firm in partnership with others and are anxious to get a partnership deed prepared. On what points would you come to conclusions with a view to incorporating the same in the said agreement so as to avoid disputes and litigations?
(B. Com. Cal., 1925).
2. Discuss fully the rights and obligations of partners in a partnership business.
(B. Com. Cal., 1927).
3. What is a Limited Partnership? Compare its advantages with those of the Private Limited Company.
(B. Com. Cal., 1931).
4. Specify with reason the principal clauses which should be included in a property framed partnership agreement.
(B. Com. Cal., 1927).
5. What safeguards can be adopted to make the working of a partnership smooth?
(B. Com. Bombay, 1929).
6. Differentiate clearly between the Joint Hindu Family Organisation and the Partnership Organisation.
(B. Com. Lucknow, 1924).

7. What is a limited partnership and where does it differ from ordinary partnership? How are the partnership assets applied in the event of dissolution of partnership? (B. Com. Cal., 1933).
 8. In organisation of a large concern the responsibility is in some cases "collective" and in others "individual". Discuss the merits and drawbacks of each. (B. Com. Allahabad, 1926).
 9. What is the position of a partner relative to his co-partners and what is his position relative to the creditors of his firm? (B. Com. Bombay, 1929).
 10. Explain the meanings of and set out the differences between a partnership firm, a private limited company and a public limited company. (B. Com. Cal., 1946).
 11. What are the essential features of partnership? What precautions are generally recommended to avoid future disputes and litigation in a partnership business? (B. Com. Cal., 1948).
 12. What are the requisites of an ideal partnership? Under what circumstances can a partnership be dissolved? (Agra B. Com., 1948).
 13. A sole trader whose business is expanding feels the need of some assistance in his business. Should he take a partner or engage a servant? Give reasons. (Bom. B. Com., 1946).
 14. Discuss the advantages and limitations of partnership business. (B. Com. Cal., 1954).
 15. What are the essential features of Partnership? What precautions are generally recommended to avoid future disputes and litigation in a Partnership business? (B. Com. Cal., 1948).
 16. What do you understand by Partnership Business? What are its essential features, merits and demerits? (B. Com. Cal., 1950).
 17. Discuss the special features of Partnership, Limited Partnership and Public Limited Company. (B. Com. Cal., 1952).
 18. How is profit-sharing distinguished from Co-partnership? Discuss the advantages and disadvantages of profit-sharing? (B. Com. Cal., 1952).
 19. Discuss fully the rights and obligations of Partners in a partnership business. (B. Com. Cal., 1953).
 20. Discuss the advantages and limitations of Partnership business. (B. Com. Cal., 1954).
 21. Is there any tendency in India at present to convert "partnership" type of business into limited liability concerns? If so, give reasons for such a change.
 22. Discuss fully the rights and obligations of partners in a partnership business.
 23. What is a Limited Partnership? Compare its advantages with those of Private Limited Company. (B. Com. Cal., 1957).
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CHAPTER III

COMPANIES

Evolution of Companies

A company type of business organisation is suitable under modern conditions. Evidence suggests that a sole proprietorship type was the beginning of business organisation. Later a proprietary type has been extended to a partnership form of business organisation. Three types of business organisation now work side by side, though companies are preferred for dealing with a business requiring a large amount of capital.

Definition of Companies

In India companies are regulated and governed by the Companies Act, 1956 as amended in 1961.

“By a company is meant an association of many persons who contribute money or money's worth to a common stock and employ it for a common purpose. The common stock so contributed is denoted in money and is the capital of the company. The persons who contribute it or to whom it belongs are members. The proportion of capital to which each member is entitled is his share.”

In the past companies have been established by Royal Charters. Sometimes they have been incorporated by Acts of Parliament. Other companies, though registered under the Companies Act, are in respect of many important matters governed by the provisions of special enactments, such as banking-insurance and electric Companies Acts.

A Company and A Partnership

A company is a legal entity as distinct from its shareholders, while a partnership is not distinct from its partners. The liability of the members of a company can be limited but in a partnership every partner is personally liable to the full extent for all debts incurred by the partnership firm. A company can do only such business as is authorised and permitted by its Memorandum of

Association. A company is a legal entity. It can own and deal with the property which belongs to it in its corporate name, and can enter into contracts in its individual capacity as a legal person. In a partnership, the ownership of property is joint and every partner has authority, express or implied, to enter into contracts on behalf of the partnership firm. A partner cannot make a contract with his firm but a member of a company can do so. A member of a company has the right to transfer his share without the consent of any other person. A company has perpetual succession while the death of a partner may dissolve a partnership firm. A company is required to comply with a number of statutory obligations, and in the case of a default the Act prescribes penalties. In the case of a partnership firm, there are no such statutory obligations to be complied with.

The Act prohibits the association of partnerships (except a joint family), consisting of more than 10 persons in the case of banking companies and over 20 in other cases of business, from transacting business without registration.

Types of Companies

The Companies Act provides for the registration of three kinds of companies, such as companies limited by shares, companies limited by guarantee and unlimited companies. A company in the first category may be either a private or public one.

The attraction of companies limited by shares is the limited liability of the shareholders. The liability of a shareholder, in the event of the company being wound up, relating to the shares held by him is limited to the amount which remains unpaid on the shares.

In the case of companies limited by a guarantee, the liability of the shareholders is limited by the Memorandum of Association to the extent as the shareholders agree to contribute to the assets of the company in the event of it being wound up. If such a company has a share capital, the shareholders are liable to pay the amount which remains unpaid on their shares, combined with the amount payable under the guarantee. Such a liability arises because a guarantee is a collateral promise to pay.

In unlimited liability companies, the liability of the shareholders is co-extensive with the debts incurred by the company.

The members are fully liable for all debts incurred by the company.

Private and Public Companies

Companies limited by shares and companies limited by guarantee may be either private or public companies. A private company is a company in which by Articles of Association the right to transfer shares is restricted, the number of members is limited to 50 and the invitation to the public to subscribe for shares is prohibited. Companies without such limitations are public companies. For a limited liability company the number of members should not fall below 2 in the case of a private company and 7 in the case of a public company.

A limited company denotes a company in which the liability of each shareholder is limited to the face value of his share. A limited company is generally registered under the Companies Act. A limited company may be incorporated by a special Act of Parliament and is known as a *statutory company*. It is generally formed in the case of railway, gas, tramway, electric and water supply companies. It is usually formed when the companies require special powers to function, such as to acquire private properties, to use public places, to be assured of a monopoly, etc.

The Companies Act imposes several restrictions upon a private company in exchange of the many advantages which it enjoys. Restrictions are placed upon the transfer of its shares. A private company need not disclose its financial position to the public. It is not required to issue any prospectus, nor any statement in lieu of a prospectus. It has no restriction for the first allotment of shares. It does not require a commencement certificate to start doing business.

It is required to file with the Registrar of Companies its profit and loss account and balance sheet. When a private company is a subsidiary to a public company, it is subject to certain restrictions regarding rotation and number of directors, granting of loans, terms of appointment of managing agents, their remuneration and powers, etc.

A private company is deemed to be a subsidiary of a public company if the latter controls the composition of the former's board of directors or holds more than half the nominal value of the former's equity share capital. A subsidiary of another subsi-

diary private company is also deemed to be a subsidiary of a public company. The Companies Act amendment committee has suggested that a private company in which shares to the extent of 25% or more of the paid up capital are held by one or more companies public or private shall be deemed to be a private company. The committee has further recommended that an Indian subsidiary of a foreign company should be treated as a subsidiary of a public company.

A private company, whether a subsidiary of a public company or not, must add the words "Private Limited" at the end of its name. A private company is debarred from owning the shares of its holding company.

A *public company* refers to a company other than a private one. It is subjected to several restrictions by law. It issues its shares for public subscription, and its shares are transferable easily. A public company may be of three types. (1) It is known as a *company limited by shares*, when its capital is divided into a number of shares, and the liability of each shareholder is limited to the face value of his share. If the full amount of the share value is paid, the liability of a shareholder ceases. But if any portion of the value of the share is not paid, the shareholder may be asked to contribute the unpaid portion when required. It is sometimes the practice of companies to keep a certain portion of the share value unpaid and treat it as a reserve liability, which may be called up. It, therefore, serves the purpose of a reserve fund, and helps inspire confidence and credit. The reserve liability is often found to be of great help in cases of banks and insurance companies which depend on confidence for their success. (2) An *unlimited liability company* is one, in which a shareholder is liable for the debt of the company to an unlimited extent as in the case of a partnership. But a member's liability ends after one year of his ceasing to be a member. The shares are transferable. This type is rarely found in practice. (3) A *company limited by guarantee* refers to a company in which each shareholder undertakes to contribute a certain guaranteed sum of money for the debts of the company, and the liability continues for one year even after his ceasing to be a member. It may possess a fixed capital which is divided into shares, representing the units of the guarantee. There may also be no fixed capital in such a company. This type of company is *uncommon*.

Conversion of a Private Company into a Public One

A private company can be converted into a public company by altering its Articles of Association by a special resolution. It must file with the Registrar of Companies a prospectus or a statement in lieu of it within 14 days of the change.

From Private to Public Company

Where not less than twenty-five per cent of the paid-up share capital of a private company having a share capital, is held by one or more bodies corporate, the private company shall on and from the date on which the aforesaid percentage is first held by such a body or bodies corporate, or where the aforesaid percentage has been first so held before the commencement of the Companies (Amendment) Act, 1961, on and from the expiry of the period of three months from the date of such commencement unless within that period the aforesaid percentage is reduced below twenty-five per cent of the paid-up share capital of the private company, become by virtue of this section a public company.

Provided further that in computing the aforesaid percentage, account shall not be taken of any share in the private company held by a banking company, if, but only if, the following conditions are satisfied in respect of such share, namely that the share forms part of the subject-matter of a trust, has not been set apart for the benefit of any body corporate, and is held by the banking company either as a trustee of that trust or in its own name on behalf of a trustee of that trust; or that the share forms part of the estate of a deceased person, has not been bequeathed by the deceased person by his will to any body corporate, and is held by the banking company either as an executor or administrator of the deceased person or in its own name on behalf of an executor or administrator of the deceased person; and the Registrar may, for the purpose of satisfying himself that any share is held in the private company by a banking company as aforesaid, call for at any time from the banking company such books and papers as he considers necessary.

Within three months from the date on which a private company becomes a public company by virtue of this section, the company shall inform the Registrar that it has become a public company as aforesaid, and thereupon the Registrar shall delete

the word 'Private' before the word 'Limited' in the name of the company upon the register and shall also make the necessary alterations in the certificate of incorporation issued to the company and in its memorandum of association.

Meaning of the word "Limited"

The meaning of the word "Limited" is that the liability of the shareholder of a company is limited to a specified sum of money. Every registered limited company must always use the word "Limited" or "Ltd." after its name, except in the following cases. If the Central Government is satisfied that an association of people is willing to form a limited company with the object of promoting commerce, art, science, religion, charity, or any other useful object, or of spending all profits, if any, for its own purpose or if it prohibits distributing dividends to its members, the Central Government may permit such an association to be registered under the Companies Act as a limited company under a licence with the advantage that it does not use the word "Limited" after its name. In all other respects, the company is regulated by the Companies Act. The licence is usually given under certain rules and regulations, which are binding upon the company. The licence may be revoked any time, depriving the company of the privilege.

Formation of a Company

A private company may be incorporated under the Companies Act at least by two persons, who comply with all provisions of the Act. It can start functioning immediately after its incorporation.

Any seven or more persons may form a public company by complying with all provisions of the Companies Act. The following steps are taken for the formation of a public company.

A Memorandum of Association of the proposed company and its Articles of Association if any (otherwise the standard Articles under Table A in Schedule I of the Companies Act will apply) must be drafted according to the Act. They must be duly signed at least by seven members, each of whom has subscribed at least to one share of the company, and filed with the Registrar of Companies along with the following documents. A list of

directors must be submitted along with a managing agency agreement, if any. The directors mentioned in the Memorandum must indicate in writing their intention to act as such and it should be filed with the Registrar of Companies. The address of the Registered Office of the company must also be filed. The declaration of the directors for taking up their qualification shares must be submitted. A declaration from an advocate, a chartered accountant or from a person named in the Articles as a director, manager, or secretary of the company that all provisions of the Companies Act have been duly complied with must be filed. The application in the prescribed form of the subscribers desirous of forming the company is attached at the end of the Memorandum. After duly stamping each document, they are filed with the Registrar along with the prescribed fees. Then the Registrar certifies under his hand and seal that the company is incorporated or registered. After obtaining the certificate of incorporation, the company issues its prospectus with an application form for shares, inviting the public to subscribe to its share capital. When the share subscription reaches the minimum required for making an allotment of the shares, the company proceeds to make allotment of its shares under the provisions of the Companies Act. A declaration has to be filed with the Registrar by the secretary or a director of the company, stating that the minimum number of shares have been subscribed and that the directors have paid for their qualifying shares. Then the Registrar issues a *commencement certificate*, which enables the company to start doing business.

DECLARATION BEFORE COMMENCING BUSINESS

THE COMPANIES ACT, 1956.

Declaration of compliance with the provisions of Section 149(1)(a), (b) and (c) of the Companies Act, 1956.

Pursuant to Section 149(1)(d).

(To be used by a company which issued a prospectus on or with reference to its formation).

Name of Company
Presented by

Limited

I _____ of _____ being
a Director/ the Secretary of _____
do solemnly and sincerely declare:—

1. That the amount of the share capital of the company offered to the public for subscription is Rs.

2. That the amount stated in the prospectus as the minimum amount which, in the opinion of the Board of Directors, must be raised by the issue of share capital in order to provide for the matters specified in clause 5 of Schedule II of the Companies Act, 1956, is Rs.
3. That shares held subject to the payment of the whole amount thereof in cash have been allotted to the amount of Rs.
4. *That every director of the company has paid to the company on each of the shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription* except the following directors, namely
 who has/have not taken or contracted to take any shares for which he is/they are liable to pay in cash.
 *That no director of the company has taken or contracted to take any shares for which he is liable to pay in cash.
5. That no money is, or may become, liable to be repaid to applicants for any shares or debentures which have been offered for public subscription by reason of any failure to apply for, or to obtain, permission for the shares of debentures to be dealt in on any recognised stock exchange.
6. The statements in paragraphs above are true to my knowledge and those in the remaining paragraphs are true to the best of my information and belief.

Signature.

Designation: Director/Secretary.

Dated the

day of

19

I declare that the foregoing are true to my knowledge and belief.

Signature.....

Date.....

CERTIFICATE OF INCORPORATION

I hereby certify that The.....Company, Limited, is this day incorporated under the Companies Act, 1956, and that the Company is Limited.

Given under my hand at Calcutta, this.....day of.....
 One thousand nine hundred and fifty eight.

Fees and Deed Stamps.....Rs.....

Stamp Duty of Capital.....Rs.....

.....
 Registrar of Companies.

• CERTIFICATE FOR COMMENCEMENT OF BUSINESS

After incorporation, a declaration in the prescribed form is made by a director, or by any authorised agent of the company,

and filed with the Registrar of Companies, stating that shares have been allotted to an amount not less than the minimum subscription prescribed, and the directors have duly paid for their shares. Then the Registrar issues a commencement certificate, which entitles a public company to commence business, and exercise its borrowing power. A public company cannot start business before getting such a certificate.

CERTIFICATE FOR COMMENCEMENT OF BUSINESS

That

.....

Company is entitled to commence business

I hereby certify that The.....Company, Limited, of.....Street, Calcutta, which was incorporated under the Companies' Act, 1956, on the 5th day of July, 1958, and which has this day filed a statutory declaration in the prescribed form that the conditions of the Companies Act, 1956, have been complied with, is entitled to commence business.

Given under my hand at Calcutta this 14th day of July, One thousand nine hundred and fifty eight.

Registrar of Companies.

FORM OF DECLARATION OF COMPLIANCE

The declaration of compliance is given in the following form:—

THE COMPANIES ACT, 1956.

Declaration of compliance with the Requirements of the Companies Act, 1956, on Application for Registration of a Company.

Pursuant to Section 33(2).

Name of Company
Presented by

Limited/Private Limited/

I of
do solemnly and sincerely declare that I am (a)
who is engaged in the formation of the company, or a person named in the
Articles as a Director/Managing Agent/Secretaries and Treasurers/Manager/
Secretary of the Limited/Private Limited

And that all the requirements of the Company Act, 1956, and the rules thereunder in respect of matters precedent to the registration of the said company and incidental thereto have been complied

with. And I make this solemn Declaration conscientiously believing the same to be true.

Date
Place
Witness

Signature.
Designation.

(a) An advocate of the Supreme Court or of the High Court, an Attorney or a Pleader entitled to appear before the High Court or a Chartered Accountant Practising in India.

THE COMPANIES ACT, 1956.

List of the persons who have consented to be Directors of a company.
Pursuant to Section 266(4). •

Name of Company Limited.
Presented by

List of persons who have consented to be directors of Limited
filed with the Registrar of Companies, pursuant to Section 266(4) of the Companies Act, 1956, by of the applicant(s) for registration of the memorandum and articles of association of the company.

| Name and sur- name in full | Address | Description | Occupation | Date of birth and age | Nationality |
|-------------------------------|---------|-------------|------------|--------------------------|-------------|
| (1) | (2) | (3) | (4) | (5) | (6) |

Dated the day of Signature(s) of the applicant(s).
Note:—(1) This form is not required to be filled:—

- (a) by a company not having a share capital;
- (b) by a private company;
- (c) by a company which was a private company before becoming a public company; or
- (d) where the directors or proposed directors are named in a prospectus issued by, or on behalf of, a company after the expiry of one year from the date on which the company was entitled to commence business.

THE COMPANIES ACT, 1956.

Consent to act as Director of a Company
Pursuant to Section 264 (1)/266 (1) (a)

Name of Company Limited.
Presented by

To the Registrar of Companies,
I/We, the undersigned, hereby testify my/our consent to act as Director/
Directors of the Limited pursuant to Section 264 (1)/266 (1) (a)
of the Companies Act, 1956.

| Name and Surname in full | Address | Description | Occupation | Date of birth and age | Nationality | Signature(s) |
|--------------------------|---------|-------------|------------|-----------------------|-------------|--------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |

Dated the _____ day of _____ 19 ____
Note:—(1) If a Director signs by his agent authorised in writing, the authority must be produced before the Registrar.

Company Promoter

A promoter takes the initiative in starting a company. He visualises the future and plans accordingly. He hunts for industrial opportunities and possibilities. As soon as he foresees chances of industrial or commercial prospects in any line, he begins to act. He brings into existence a company, and develops opportunities for profitable investment. He specialises in this line of work. In the initial stage, a promoter pays the preliminary expenses of a company, and gets the company duly incorporated after drawing up the Memorandum of Association and other documents. After the incorporation of the company, he offers its shares for public subscription. If he fails to interest the public in his venture, he stands to lose even his preliminary expenses. A promoter may himself supply a considerable portion of the capital of a company, and he remains closely associated with its management. A promoter may be an able business and technical man; he may not possess capital, but he can obtain capital from the public by selling shares. Later he manages the company.

Promoters have a fiduciary relationship with the company. They must not make any secret profit and are required to disclose the extent and nature of the profits taken by them for the promotion of a company. Any monies taken by them in bad faith are liable to be refunded to the company. If a promoter sells his property to the company he must disclose his interest in the property to the Board of Directors in order to enable them to exercise an independent judgment on the transaction. Promoters are entitled to

remuneration for the formation of the company. The remuneration paid must be disclosed in the prospectus.

The function of a promoter is important for the growth of companies. He is the intermediary, who attracts the savings of the public in order to use them for industrial and commercial pursuits. There may be unscrupulous promoters, who start companies haphazardly without any special knowledge and aptitude. These companies do not thrive and impair confidence. In India, the managing agents may perform the function of a promoter.

Underwriting Commission

It denotes the commission paid to an underwriter who enters into a contract with a company or its promoters guaranteeing that the share capital offered to the public, will be taken up. In case the shares remain unsubscribed, they are taken up and paid for by the underwriters. In consideration of the underwriting, commission is paid to the underwriters. It is usually calculated as so much percentage of the capital of a company.

Memorandum of Association

The Memorandum of Association of a company is an important document. It is the charter of the company, defining its powers and objects. The company cannot legally do anything outside the terms of the memorandum.

The Companies Act lays down that the memorandum of a company limited by shares should contain the following:—

(1) The name of the company must be mentioned. No company shall be registered by a name which is considered undesirable by the Central Government or which resembles the name of an existing company. The last word of a limited company must be "Limited", "Ltd.", or "Private Ltd.", except in a few cases (mentioned before). The name of a company can be altered by a special resolution of the company, subject to the sanction of the Government. (2) *The name of the State* in which the registered office of a company is situated must be mentioned. (3) The objects of the company and the State or States to whose territory the objects extend, must be stated. The latter requirement is dispensed with in the case of a Trading Corporation. The general practice is to make the "objects clause" so comprehensive as to include every conceivable act, because

an alteration of the clause is difficult. The "objects clause" helps inform the shareholders and outsiders about the objects of the company. (4) It should clearly state whether the liability is limited by share or guarantee. In case the words "liability is limited" are used, they mean that the company is limited by shares. (5) The capital clause must state the number of shares in which the authorised capital is divided.

The memorandum shall be printed, paragraphed and numbered consecutively, and signed by each original subscriber in the presence of at least one witness, who will attest his signature.

The memorandum generally contains an association clause at its end. It usually reads: "We, several persons whose names and addresses are subscribed, are desirous of being formed into a company in pursuance of the Memorandum of Association, and respectively agree to take the number of shares in the capital of the company set opposite our respective names."

Alteration of Memorandum

The clauses of the Memorandum of Association may be altered under various circumstances of which the following are important.

Name

The name of a company can be altered by a special resolution, subject to the approval of the Central Government given in writing. The change of name shall not affect any right or obligation of the company or render any legal proceeding by or against the company defective.

Objects

The alteration of the objects clause of the memorandum of a company can be made by a special resolution of the company, with the leave and sanction of a court on the following grounds:—
(a) to achieve its main object by new means, (b) to change or extend its local area of transaction, (c) to conduct its work more economically and efficiently, (d) to give up or restrict any objects mentioned in the memorandum, (e) to dispose of, or sell any part or whole of the company, (f) to amalgamate with any other company, or association of persons, (g) to transact some new business, which can be profitably combined with the existing ones.

The court may refuse sanction, or confirm its sanction under certain restrictions.

Capital

In respect of capital a company, if so authorised by its articles, may alter the conditions of its memorandum in the following way without the consent of the Court:—(i) increase its share capital by the issue of new shares of such amounts as it thinks expedient; (ii) consolidate and divide all or any of its share capital into shares of larger amounts than existing shares; (iii) convert all or any of its paid-up shares into stocks, and re-convert these stocks into paid-up shares of any denomination; (iv) sub-divide its shares, or any of them, into shares of smaller amounts than has been fixed by the memorandum, provided that in the sub-division the proportion between the amounts paid and the amounts, if any, unpaid on each reduced share, shall be the same as it was in the case of the share from which the reduced share is derived; (v) cancel shares, which at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled. The powers with regard to sub-division of shares must be exercised by a special resolution.

If the conditions in the memorandum are to be modified with a view to reorganising the share capital, the following rules hold good:—

(a) A company may, by a special resolution confirmed by an order of a court, modify the conditions contained in its memorandum so as to reorganise its share capital, whether by the consolidation of shares of different classes or by the division of its shares into shares of different classes. Provided that no preference or special privilege attached to or belonging to any class of shares shall be interfered with except by a resolution passed by a majority in number of shareholders of that class holding three-fourths of the share capital of that class and confirmed at a meeting of shareholders of that class in the same manner as a special resolution of the company is required to be confirmed, and every resolution so passed shall bind all the shareholders of the class.

The following rules in respect of a reduction of capital are to be observed:—Subject to confirmation by a court, a company

limited by shares, if so authorised by its articles, may by a special resolution reduce its share capital in any way and in particular, may—(a) extinguish or reduce the liability on any of its shares in respect of the share capital not paid up; or (b) either with or without extinguishing or reducing liability on any of its shares, cancel any paid-up share capital which is lost or unrepresented by available assets; or (c) either with or without extinguishing or reducing liability on any of its shares, pay off any paid-up share capital which is in excess of the requirements of the company, and may, if and so far as necessary, alter its memorandum by reducing the amount of its share capital and its shares accordingly.

If any provision is included in a company's memorandum which is not required by the statute to be a part thereof, it may be altered without the court's intervention. The Central Government is empowered to direct a company to change its name.

Duties of Subscribers to Memorandum

Those who subscribe to the memorandum have duties, such as to pay for their shares, to sign the Articles of Association, if any, to appoint directors in the first instance and to act as directors until the appointment of other directors, unless otherwise provided in the Articles of Association.

Articles of Association

Articles of Association of a company lay down the rules and regulations for the internal management, administration and organisation of a company. They define the powers and duties of directors or other officers of the company, and regulate the relations between the company and its members. Articles of Association must be framed within the terms of the Memorandum of Association and provisions of the Companies Act.

Limited companies may register their own Articles of Association before incorporation, but if they do not do so, the Articles of Association as set forth in the Companies Act will be deemed to apply automatically. If the Articles of a company are silent on some points, the provisions of the Companies Act will apply. Certain regulations such as deciding questions at general meetings, rotation of directors, declaration of dividends, form of the profit and loss account, etc. will apply compulsorily for all companies.

Unlimited companies and companies limited by guarantee must register their Articles of Association before incorporation. Articles of Association of a company must have one "Association clause" to be signed with addresses of all subscribers to the Memorandum before at least one witness, who will attest his signature.

Articles of Association can be altered by a special resolution of the company without requiring any sanction of a court, provided they do not contravene the provisions of the Memorandum of Association and the Companies Act. They usually govern the division of capital, issue of shares, transfer of shares, etc.

Memorandum and Articles Compared

The Memorandum of Association is the charter of a company, defining its objects and powers. Articles of Association are the rules and regulations of the company for internal management, and cannot go outside the terms of the Memorandum. Any alterations of the Articles can be made by a special resolution of the company, while the Memorandum can be altered by only a special resolution of the company, subject to the sanction of the court in certain matters according to the provision of the Companies Act. Memorandum must be registered at the time of incorporation of a company, but Articles may or may not be registered.

SCHEDULE I

[See sections 2 (2), 14, 28 (1), 29 and 223]

TABLE A

Regulations for management of a company limited by shares

Interpretation

1. (1) In these regulations—

(a) "the Act" means the Companies Act, 1956,

(b) "the seal" means the common seal of the company.

(2) Unless the context otherwise requires, words or expressions contained in these regulations shall bear the same meaning as in the Act or any statutory modification thereof in force at the date at which these regulations become binding on the company.

Share Capital and Variation of Rights

2. Subject to the provisions of section 80, any preference shares may, with the sanction of an ordinary resolution, be issued on the terms that they are, or at the option of the company are liable, to be redeemed on such terms and in such manner as the company before the issue of the shares may, by special resolution, determine.

3. (1) If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, subject to the provisions of sections 106 and 107, and whether or not the company is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

(2) To every such separate general meeting, the provisions of these regulations relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum shall be two persons at least holding or representing by proxy one-third of the issued shares of the class in question.

4. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

5. (1) The company may exercise the powers of paying commissions conferred by section 76, provided that the rate per cent. or the amount of the commission paid or agreed to be paid shall be disclosed in the manner required by that section.

(2) The rate of the commission shall not exceed the rate of five per cent. of the price at which the shares in respect whereof the same is paid are issued or an amount equal to five per cent. of such price, as the case may be.

(3) The commission may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in the one way and partly in the other.

(4) The company may also, on any issue of shares, pay such brokerage as may be lawful.

6. Except as required by law, no person shall be recognised by the company as holding any share upon any trust, and the

company shall not be bound by, or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share, or any interest in any fractional part of a share, or (except only as by these regulations or by law otherwise provided) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

7. (1) Every person whose name is entered as a member in the register of members shall be entitled to receive within three months after allotment of registration of transfer (or within such other period as the conditions of issue shall provide)

(a) one certificate for all his shares without payment ; or

(b) several certificates, each for one or more of his shares, upon payment of one rupee for every certificate after the first.

(2) Every certificate shall be under the seal and shall specify the shares to which it relates and the amount paid up thereon.

(3) In respect of any share or shares held jointly by several persons, the company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all such holders.

8. If a share certificate is defaced, lost or destroyed, it may be renewed on payment of such fee, if any, not exceeding eight annas, and on such terms, if any, as to evidence and indemnity and the payment of out-of-pocket expenses incurred by the company in investigating evidence, as the directors think fit.

Lien.

9. (1) The company shall have a first and paramount lien—

(a) on every share (not being a fully-paid share), for all moneys (whether presently payable or not) called, or payable at a fixed time, in respect of that share ; and

(b) on all shares (not being fully-paid shares) standing registered in the name of a single person, for all moneys presently payable by him or his estate to the company :

Provided that the Board of directors may at any time declare any share to be wholly or in part exempt from the provisions of this clause.

(2) The company's lien, if any, on a share shall extend to all dividends payable thereon.

10. The company may sell, in such manner as the Board thinks fit, any shares on which the company has a lien:

Provided that no sale shall be made—

- (a) unless a sum in respect of which the lien exists is presently payable; or
- (b) until the expiration of fourteen days after a notice in writing stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder for the time being of the share or the person entitled thereto by reason of his death or insolvency.

11. (1) To give effect to any such sale, the Board may authorise some person to transfer the shares sold to the purchaser thereof.

(2) The purchaser shall be registered as the holder of the shares comprised in any such transfer.

(3) The purchaser shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.

12. (1) The proceeds of the sale shall be received by the company and applied in payment of such part of the amount in respect of which the lien exists as is presently payable.

(2) The residue, if any, shall, subject to a like lien for sums not presently payable as existed upon the shares before the sale, be paid to the person entitled to the shares at the date of the sale.

Calls on Shares

13. (1) The Board may, from time to time, make calls upon the members in respect of any moneys unpaid on their shares (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times:

Provided that no call shall exceed one-fourth of the nominal value of the share or be payable at less than one month from the date fixed for the payment of the last preceding call.

(2) Each member shall, subject to receiving at least fourteen

days' notice specifying the time or times and place of payment, pay to the company, at the time or times and place so specified, the amount called on his shares.

(3) A call may be revoked or postponed at the discretion of the Board.

14. A call shall be deemed to have been made at the time when the resolution of the Board authorising the call was passed any may be required to be paid by instalments.

15. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

16. (1) If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest thereon from the day appointed for payment thereof to the time of actual payment at five per cent. per annum or at such lower rate, if any, as the Board may determine.

(2) The Board shall be at liberty to waive payment of any such interest wholly or in part.

17. (1) Any sum which by the terms of issue of a share becomes payable on allotment or at any fixed date, whether on account of the nominal value of the share or by way of premium, shall, for the purposes of these regulations, be deemed to be a call duly made and payable on the date on which by the terms of issue such sum becomes payable.

(2) In case of non-payment of such sum, all the relevant provisions of these regulations as to payment of interest and expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.

18. The Board—

(a) may, if it thinks fit, receive from any member willing to advance the same, all or any part of the moneys uncalled and unpaid upon any shares held by him ;
and

(b) upon all or any of the moneys so advanced, may (until the same would, but for such advance, become presently payable) pay interest at such rate not exceeding, unless the company in general meeting shall otherwise direct, six per cent per annum, as may be agreed upon between the Board and the member paying the sum in advance.

Transfer of Shares

19. (1) The instrument of transfer of any share in the company shall be executed by or on behalf of both the transferor and transferee.

(2) The transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the register of members in respect thereof.

20. Shares in the company shall be transferred in the following form, or in any usual or common form which the Board shall approve:—

"I, A. B. of....., in consideration of the sum of rupees.....paid to me by C. D. of..... (hereinafter called "the transferee"), do hereby transfer to the transferee the share [or shares] numbered.....to..... inclusive, in the undertaking called the.....Company, Limited, to hold unto the said transferee, his executors, administrators and assigns, subject to the several conditions on which I held the same immediately before the execution hereof; and I, the transferee, do hereby agree to take the said share (or shares) subject to the conditions aforesaid.

As witness our hands this
day of

Witness to the signatures of, etc."

21. The Board may, subject to the right of appeal conferred by section 111, decline to register—

- (a) the transfer of a share, not being a fully-paid share, to a person of whom they do not approve; or
- (b) any transfer of shares on which the company has a lien.

22. The Board may also decline to recognise any instrument of transfer unless—

- (a) a fee of two rupees is paid to the company in respect thereof;
- (b) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; and
- (c) the instrument of transfer is in respect of only one class of shares.

23. The registration of transfers may be suspended at such times and for such periods as the Board may from time to time determine:

Provided that such registration shall not be suspended for more than forty-five days in any year.

24. The company shall be entitled to charge a fee not exceeding two rupees on the registration of every probate, letters of administration, certificate of death or marriage, power of attorney, or other instrument.

Transmission of Shares

25. (1) On the death of a member, the survivor or survivors where the member was a joint holder, and his legal representatives where he was a sole holder, shall be the only persons recognised by the company as having any title to his interest in the shares.

(2) Nothing in clause (1) shall release the estate of a deceased joint holder from any liability in respect of any share which had been jointly held by him with other persons.

26. (1) Any person becoming entitled to a share in consequence of the death or insolvency of a member may, upon such evidence being produced as may from time to time properly be required by the Board and subject as hereinafter provided, elect, either—

- (a) to be registered himself as holder of the share; or
- (b) to make such transfer of the share as the deceased or insolvent member could have made.

(2) The Board shall, in either case, have the same right to decline or suspend registration as it would have had, if the deceased or insolvent member had transferred the share before his death or insolvency.

27. (1) If the person so becoming entitled shall elect to be registered as holder of the share himself, he shall deliver or send to the company a notice in writing signed by him stating that he so elects.

(2) If the person aforesaid shall elect to transfer the share, he shall testify his election by executing a transfer of the share.

(3) All the limitations, restrictions and provisions of these regulations relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or

transfer as aforesaid as if the death or insolvency of the member had not occurred and the notice or transfer were a transfer signed by that member.

28. A person becoming entitled to a share by reason of the death or insolvency of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the company:

Provided that the Board may, at any time, give notice requiring any such person to elect either to be registered himself or to transfer the share, and if the notice is not complied with within ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the share, until the requirements of the notice have been complied with.

Forfeiture of Shares

29. If a member fails to pay any call, or instalment of a call, on the day appointed for payment thereof, the Board may, at any time thereafter, during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued.

30. The notice aforesaid shall—

- (a) name a further day (not being earlier than the expiry of fourteen days from the date of service of the notice) on or before which the payment required by the notice is to be made; and
- (b) state that, in the event of non-payment on or before the day so named, the shares in respect of which the call was made will be liable to be forfeited.

31. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may, at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect.

32. (1) A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the Board thinks fit.

(2) At any time before a sale or disposal as aforesaid, the Board may cancel the forfeiture on such terms as it thinks fit.

33. (1) A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding the forfeiture, remain liable to pay to the company all moneys which, at the date of forfeiture, were presently payable by him to the company in respect of the shares.

(2) The liability of such person shall cease if and when the company shall have received payment in full of all such moneys in respect of the shares.

34. (1) A duly verified declaration in writing that the declarant is a director, the managing agent, the secretaries and treasurers, the manager or the secretary, of the company, and that a share in the company has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share.

(2) The company may receive the consideration, if any, given for the share on any sale or disposal thereof and may execute a transfer of the share in favour of the person to whom the share is sold or disposed of.

(3) The transferee shall thereupon be registered as the holder of the share.

(4) The transferee shall not be bound to see the application of the purchase money, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.

35. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

Conversion of Shares into Stock

36. The company may, by ordinary resolution,—

(a) convert any paid-up shares into stock; and

(b) reconvert any stock into paid-up shares of any denomination.

37. The holders of stock may transfer the same or any part thereof in the same manner as, and subject to the same regulations under which, the shares from which the stock arose might before the conversion have been transferred, or as near thereto as circumstances admit:

Provided that the Board may, from time to time, fix the minimum amount of stock transferable, so however that such minimum shall not exceed the nominal amount of the shares from which the stock arose.

38. The holders of stock shall, according to the amount of stock held by them, have the same rights, privileges and advantages as regards dividends, voting at meetings of the company, and other matters, as if they held the shares from which the stock arose; but no such privilege or advantage (except participation in the dividends and profits of the company and in the assets on winding up) shall be conferred by an amount of stock which would not, if existing in shares, have conferred that privilege or advantage.

39. Such of the regulations of the company (other than those relating to share warrants), as are applicable to paid-up shares shall apply to stock and the words "share" and "shareholder" in those regulations shall include "stock" and stockholder" respectively.

Share Warrants

40. The company may issue share warrants subject to, and in accordance with, the provisions of sections 114 and 115; and accordingly the Board may in its discretion, with respect to any share which is fully paid up, on application in writing signed by the person registered as holder of the share, and authenticated by such evidence (if any) as the Board may, from time to time, require as to the identity of the person signing the application, and on receiving the certificate (if any) of the share, and the amount of the stamp duty on the warrant and such fee as the Board may from time to time require, issue a share warrant.

41. (1) The bearer of a share warrant may at any time deposit the warrant at the office of the company, and so long as the warrant remains so deposited, the depositor shall have the same right of signing a requisition for calling a meeting of the company, and of attending, and voting and exercising the other privileges of a member at any meeting held after the expiry of two clear days

from the time of deposit, as if his name were inserted in the register of members as the holder of the shares included in the deposited warrant.

(2) Not more than one person shall be recognised as depositor of the share warrant.

(3) The company shall, on two days' written notice, return the deposited share warrant to the depositor.

42. (1) Save as herein otherwise expressly provided, no person shall, as bearer of a share warrant, sign a requisition for calling a meeting of the company, or attend, or vote or exercise any other privilege of a member at a meeting of the company, or be entitled to receive any notices from the company.

(2) The bearer of a share warrant shall be entitled in all other respects to the same privileges and advantages as if he were named in the register of members as the holder of the shares included in the warrant, and he shall be a member of the company.

43. The Board may, from time to time, make rules as to the terms on which (if it shall think fit) a new share warrant or coupon may be issued by way of renewal in case of defacement, loss or destruction.

Alteration of Capital

44. The company may, from time to time, by ordinary resolution increase the share capital by such sum, to be divided into shares of such amount, as may be specified in the resolution.

45. The company may, by ordinary resolution,—

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares ;
- (b) sub-divide its existing shares or any of them into shares of smaller amount than is fixed by the memorandum, subject, nevertheless, to the provisions of clause (d) of sub-section (1) of section 94 ;
- (c) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person.

46. The company may, by special resolution, reduce in any manner and with, and subject to, any incident authorised and consent required by law,—

- (a) its share capital ;

- (b) any capital redemption reserve fund ; or
- (c) any share premium account.

General Meetings

47. All general meetings other than annual general meetings shall be called extraordinary general meetings.

48. (1) The Board may, whenever it thinks fit, call an extraordinary general meeting.

(2) If at any time there are not, within India, directors capable of acting who are sufficient in number to form a quorum, any director or any two members of the company may call an extraordinary general meeting in the same manner, as nearly as possible, as that in which such a meeting may be called by the Board.

Proceedings at General Meetings

49. (1) No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business.

(2) Save as herein otherwise provided, five members present in person (in the case of a public company—two members present in person, in the case of a private company) shall be a quorum.

50. The chairman, if any, of the Board shall preside as chairman at every general meeting of the company.

51. If there is no such chairman, or if he is not present within fifteen minutes after the time appointed for holding the meeting, or is unwilling to act as chairman of the meeting, the directors present shall elect one of their number to be chairman of the meeting.

52. If at any meeting no director is willing to act as chairman or if no director is present within fifteen minutes after the time appointed for holding the meeting, the members present shall choose one of their number to be chairman of the meeting.

53. (1) The chairman may, with the consent of any meeting at which a quorum is present, and shall, if so directed by the meeting, adjourn the meeting from time to time and from place to place.

(2) No business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

(3) When a meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting.

(4) Save as aforesaid, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

54. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place, or at which the poll is demanded, shall be entitled to a second or casting vote. •

55. Any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll.

Votes of Members

56. Subject to any rights or restrictions for the time being attached to any class or classes of shares,—

(a) on a show of hands, every member present in person shall have one vote; and

(b) on a poll, the voting rights of members shall be as laid down in section 87.

57. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

For this purpose, seniority shall be determined by the order in which the names stand in the register of members.

58. A member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee or other legal guardian, and any such committee or guardian may, on a poll, vote by proxy.

59. No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the company have been paid.

60. (1) No objection shall be raised to the qualification of any voter except at the meeting or adjourned meeting at which the vote objected to is given or tendered, and every vote not disallowed at such meeting shall be valid for all purposes.

(2) Any such objection made in due time shall be referred to the chairman of the meeting, whose decision shall be final and conclusive.

61. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, shall be deposited at the registered office of the company not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, or, in the case of a poll, not less than 24 hours before the time appointed for the taking of the poll; and in default the instrument of proxy shall not be treated as valid.

62. An instrument appointing a proxy shall be in either of the forms in Schedule IX to the Act or a form as near thereto as circumstances admit.

63. A vote given in accordance with the terms of an instrument of proxy shall be valid, notwithstanding the previous death or insanity of the principal or the revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given:

Provided that no intimation in writing of such death, insanity, revocation or transfer shall have been received by the company at its office before the commencement of the meeting or adjourned meeting at which the proxy is used.

Board of Directors

64. The number of the directors and the names of the first directors shall be determined in writing by the subscribers of the memorandum or a majority of them.

65. (1) The remuneration of the directors shall, in so far as it consists of a monthly payment, be deemed to accrue from day to day.

(2) In addition to the remuneration payable to them in pursuance of the Act, the directors may be paid all travelling, hotel and other expenses properly incurred by them—

(a) in attending and returning from meetings of the Board of directors or any committee thereof or general meetings of the company; or

(b) in connection with the business of the company.

66. The qualification of a director shall be the holding of at least one share in the company.

67. The Board may pay all expenses incurred in setting up and registering the company.

68. The company may exercise the powers conferred by section 50 with regard to having an official seal for use abroad, and such powers shall be vested in the Board.

69. The company may exercise the powers conferred on it by sections 157 and 158 with regard to the keeping of a foreign register ; and the Board may (subject to the provisions of those sections) make and vary such regulations as it may think fit respecting the keeping of any such register.

70. All cheques, promissory notes, drafts, hundis, bills of exchange and other negotiable instruments, and all receipts for moneys paid to the company, shall be signed, drawn, accepted, endorsed, or otherwise executed, as the case may be, by the managing agent or secretaries and treasurers of the company, or where there is no managing agent or secretaries and treasurers, by such person and in such manner as the Board shall from time to time by resolution determine.

71. Every director present at any meeting of the Board or of a committee thereof shall sign his name in a book to be kept for that purpose.

72. (1) The Board shall have power at any time, and from time to time, to appoint a person as an additional director who shall hold office until the next following general meeting.

(2) Such person shall however be eligible for appointment by the company at that meeting as a director, after the meeting has, if necessary, increased the number of the directors.

Proceedings of Board

73. (1) The Board of directors may meet for the despatch of business, adjourn and otherwise regulate its meetings, as it thinks fit.

(2) A director may, and the managing agent, secretaries and treasurers, manager or secretary on the requisition of a director shall, at any time, summon a meeting of the Board.

74. (1) Save as otherwise expressly provided in the Act, questions arising at any meeting of the Board shall be decided by a majority of votes.

(2) In case of an equality of votes, the chairman of the Board, if any, shall have a second or casting vote.

75. The continuing directors may act notwithstanding any vacancy in the Board; but, if and so long as their number is reduced below the quorum fixed by the Act for a meeting of the Board, the continuing directors or director may act for the purpose of increasing the number of directors to that fixed for the quorum, or of summoning a general meeting of the company, but for no other purpose.

76. (1) The Board may elect a chairman of its meetings and determine the period for which he is to hold office.

(2) If no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the meeting, the directors present may choose one of their number to be chairman of the meeting.

77. (1) The Board may, subject to the provisions of the Act, delegate any of its powers to committees consisting of such member or members of its body as it thinks fit.

(2) Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on it by the Board.

78. (1) A committee may elect a chairman of its meetings.

(2) If no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the meeting, the members present may choose one of their number to be chairman of the meeting.

79. (1) A committee may meet and adjourn as it thinks proper.

(2) Questions arising at any meeting of a committee shall be determined by a majority of votes of the members present, and in case of an equality of votes, the chairman shall have a second or casting vote.

80. All acts done by any meeting of the Board or of a committee thereof or by any person acting as a director, shall, notwithstanding that it may be afterwards discovered that there was some defect in the appointment of any one or more of such directors or of any person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such director or such person had been duly appointed and was qualified to be a director.

81. Save as otherwise expressly provided in the Act, a resolution in writing, signed by all the members of the Board or of a committee thereof, for the time being entitled to receive notice of a meeting of the Board or committee, shall be as valid and effectual as if it had been passed at a meeting of the Board or committee, duly convened and held.

Manager or Secretary

82. (1) A manager or secretary may be appointed by the Board for such term, at such remuneration and upon such conditions as it may think fit; and any manager or secretary so appointed may be removed by the Board.

(2) A director may be appointed as manager or secretary.

83. A provision of the Act or these regulations requiring or authorising a thing to be done by or to a director and the manager or secretary shall not be satisfied by its being done by or to the same person acting both as director and as, or in place of, the manager or secretary.

The Seal

84. (1) The Board shall provide for the safe custody of the seal.

(2) The seal of the company shall not be affixed to any instrument except by the authority of a resolution of the Board or of a committee of the Board authorised by it in that behalf, and except in the presence of at least two directors and of the secretary or such other person as the Board may appoint for the purpose; and those two directors and the secretary or other person aforesaid shall sign every instrument to which the seal of the company is so affixed in their presence.

Dividends and Reserve

85. The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Board.

86. The Board may from time to time pay to the members such *interim* dividends as appear to it to be justified by the profits of the company.

87. (1) The Board may, before recommending any dividend, set aside out of the profits of the company such sums as it thinks proper as a reserve or reserves which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the company may be properly applied, including provision for meeting contingencies or for equalising dividends; and pending such application, may, at the like discretion, either be employed in the business of the company or be invested in such investments (other than shares of the company) as the Board may, from time to time, think fit.

(2) The Board may also carry forward any profits which it may think prudent not to divide, without setting them aside as a reserve.

88. (1) Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid or credited as paid on the shares in respect whereof the dividend is paid, but if and so long as nothing is paid upon any of the shares in the company, dividends may be declared and paid according to the amounts of the shares.

(2) No amount paid or credited as paid on a share in advance of calls shall be treated for the purposes of this regulation as paid on the share.

(3) All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as from a particular date such share shall rank for dividend accordingly.

89. The Board may deduct from any dividend payable to any member all sums of money, if any, presently payable by him to the company on account of calls or otherwise in relation to the shares of the company.

90. (1) Any general meeting declaring a dividend or bonus may direct payment of such dividend or bonus, wholly or partly, by the distribution of specific assets; and the Board shall give effect to the resolution of the meeting.

(2) Where any difficulty arises in regard to such distribution the Board may settle the same as it thinks expedient, and in particular may issue fractional certificates and fix the value for distri-

bution of such specific assets or any part thereof and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Board.

91. (1) Any dividend, interest or other moneys payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of that one of the joint holders who is first named on the register of members, or to such person and to such address as the holder or joint holders may in writing direct.

(2) Every such cheque or warrant shall be made payable to the order of the person to whom it is sent.

92. Any one of two or more joint holders of a share may give effectual receipts for any dividends, bonuses or other moneys payable in respect of such share.

93. Notice of any dividend that may have been declared shall be given to the persons entitled to share therein in the manner mentioned in the Act.

94. No dividend shall bear interest against the company.

Accounts

95. (1) The Board shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations, the accounts and books of the company, or any of them, shall be open to the inspection of members not being directors.

(2) No member (not being a director) shall have any right of inspecting any account or book or document of the company except as conferred by law or authorised by the Board or by the company in general meeting.

Capitalisation of profits

96. (1) The company in general meeting may, upon the recommendation of the Board, resolve—

(a) that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the company's reserve accounts, or to the credit of the

profit and loss account, or otherwise available for distribution ; and

- (b) that such sum be accordingly set free for distribution in the manner specified in clause (2) amongst the members who would have been entitled thereto, if distributed by way of dividend and in the same proportions.

(2) The sum aforesaid shall not be paid in cash but shall be applied, subject to the provision contained in clause (3), either in or towards—

- (i) paying up any amounts for the time being unpaid on any shares held by such members respectively ;
- (ii) paying up in full, unissued shares or debentures of the company to be allotted and distributed, credited as fully paid up, to and amongst such members in the proportions aforesaid ; or
- (iii) partly in the way specified in sub-clause (i) and partly in that specified in sub-clause (ii).

(3) A share premium account and a capital redemption reserve fund may, for the purposes of this regulation, only be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares.

(4) The Board shall give effect to the resolution passed by the company in pursuance of this regulation.

97. (1) Whenever such a resolution as aforesaid shall have been passed, the Board shall—

- (a) make all appropriations and applications of the undivided profits resolved to be capitalised thereby, and all allotments and issues of fully paid shares or debentures, if any ; and
 - (b) generally do all acts and things required to give effect thereto.
- (2) The Board shall have full power—
- (a) to make such provision, by the issue of fractional certificates or by payment in cash or otherwise as it thinks fit, for the case of shares or debentures becoming distributable in fractions ; and also
 - (b) to authorise any person to enter, on behalf of all the members entitled thereto, into an agreement with the company providing for the allotment to them respec-

tively, credited as fully paid up, of any further shares or debentures to which they may be entitled upon such capitalisation, or (as the case may require) for the payment up by the company on their behalf, by the application thereto of their respective proportions of the profits resolved to be capitalised, of the amounts or any part of the amounts remaining unpaid on their existing shares.

(3) Any agreement made under such authority shall be effective and binding on all such members.

Winding up

98. (1) If the company shall be wound up, the liquidator may, with the sanction of a special resolution of the company and any other sanction required by the Act, divide amongst the members, in specie or kind, the whole or any part of the assets of the company, whether they shall consist of property of the same kind or not.

(2) For the purpose aforesaid, the liquidator may set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members.

(3) The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other securities whereon there is any liability.

99. Every officer or agent for the time being of the company shall be indemnified out of the assets of the company against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or in connection with any application under section 633 in which relief is granted to him by the Court.

TABLE B

MEMORANDUM OF ASSOCIATION OF A COMPANY LIMITED BY SHARES

1st.—The name of the company is "The Eastern Steam Packet Company, Limited".

2nd.—The registered office of the company will be situated in the State of Bombay.

3rd.—The objects for which the company is established are “the conveyance of passengers and goods in ships or boats between such places as the company may from time to time determine, and the doing of all such other things as are incidental or conducive to the attainment of the above object”.

4th.—The liability of the members is limited.

5th.—The share capital of the company is two hundred thousand rupees, divided into one thousand shares of two hundred rupees each.

We, the several persons whose names and addresses are subscribed, are desirous of being formed into a company in pursuance of this memorandum of association, and we respectively agree to take the number of shares in the capital of the company set opposite our respective names.

| Names, Address, Descriptions and Occupations of Subscribers. | | | | | Number of shares taken by each sub- criber. |
|---|----------------|----------|---|---|---|
| 1. | A. B. of..... | merchant | . | . | 200 |
| 2. | C. D. of..... | merchant | . | . | 25 |
| 3. | E. F. of..... | merchant | . | . | 30 |
| 4. | G. H. of..... | merchant | . | . | 40 |
| 5. | I. J. of..... | merchant | . | . | 15 |
| 6. | K. L. of | merchant | . | . | 5 |
| 7. | M. N. of..... | merchant | . | . | 10 |
| Total shares taken | | | | | 325 |

Dated the.....day of.....19 .

Witness to the above signatures

X. Y. of.....

Investment of Companies

Investments made by a company are required to be made and held in its own name.

This, however, does not apply to investments made by a company whose principal business consists of buying and selling shares and securities. Other companies are also allowed to hold the required portion of its investments in shares jointly with its nominee to enable such a nominee to become a director in its behalf. A company is empowered to hold shares in its subsidiary jointly with a third party to ensure that such a subsidiary has the minimum number of shareholders required under the Act.

Capital of a Company

A company obtains its capital by means of shares. The money which a company can secure by means of debentures, if its articles permit, mortgaging its assets, or by securing overdrafts or by similar financial accommodation from banks, is really a loan, and not capital.

The capital which a company is authorised by its Memorandum to raise from the public by means of shares is called its *authorised or nominal capital*, or even *registered capital*.

A company usually issues a portion of its authorised capital to the public for subscription by means of shares, and such an amount is called its *issued capital*. Subscribed capital denotes such portion of the issued capital as is subscribed by the public or vendor, if any. It is usually the practice of a company not to demand at one call the entire face value of the share capital which is subscribed. The directors call up the capital in instalments as laid down in the prospectus. *Called-up capital* refers to that portion of the face value of the shares, which is called up by the directors to be paid. That portion of the called up capital, which is paid by shareholders is known as the *paid-up capital*. The uncalled portion of the subscribed capital is a contingent liability of the shareholders. When a company passes a special resolution, stating that the company will not be able to call the uncalled capital except in the case of winding up of the company, it is known as the *reserve capital* of the company. It is a *reserve liability* of the shareholders. This sort of reserve liability gives a company high credit and confidence. *Calls in arrears or calls unpaid* refer to that portion of the capital, which has been called up, but not yet paid. A company may charge interest upon such arrears, if its articles so provide for. If any capital is paid by shareholders in anticipation of a call, it becomes

a *call in advance*. If its articles permit, a company may accept such calls in advance, and may pay interest on them.

How much capital a company should possess depends upon its own requirements. A company should prudently decide how much capital it will require. Both *over-capitalisation* and *under-capitalisation* are bad. When a company possesses capital in excess of its requirements, it leads to the reduction of dividends on shares, and impairs confidence. In the case of under-capitalisation, a company cannot progress; it cannot expand according to expectations; it cannot meet its creditors in time. The company in consequence loses credit, and incurs losses.

In an over-capitalised concern, funds are not employed profitably, and dividends are lower. The prices of shares may be quoted below par. Over-capitalisation is due to the issue of capital in excess of requirements. The result is a fall in efficiency of assets, due to the lack of adequate provision for depreciation or other contingencies. It may be caused by the procurement of outside funds at exorbitant rates of interest, which reduces the earning on shares. Such an evil is found in the case of companies which are started during a boom, when assets are acquired at inflated values. Such concerns find it difficult to maintain earnings during a depression, and share values, as a result, fall below par. Sometimes over-capitalisation occurs when a company spends lavishly on establishment and equipment, the result is higher operational costs.

Company promoters may deliberately keep their concerns under-capitalised in order to earn better dividends. A company may raise small capital and go in for borrowing to obtain funds at low rates of interest. The practice is, however, risky and should be avoided. It is uncertain whether a company can be sure of securing funds at low rates of interest. This apart, conditions in the money market fluctuate and funds may not be possible to obtain during a period of stringency.

Capital Gearing

In view of its importance, the capitalisation of a company should be planned ahead on a scientific basis. Company promoters must have a clear grasp of capital requirements of a business, and they should formulate a policy of scientific capital gearing, which

denotes a proper distribution of the capital among different securities such as debentures, preference, ordinary and deferred shares.

Debentures carry a fixed rate of interest to be paid at regular intervals. Before issuing such bonds, company promoters make sure that the company is capable of earning at least a profit equivalent to the interest payable on debentures. Methods of redeeming such debentures must be planned ahead.

Preference shares carry fixed rates of dividend to be paid at regular intervals. The normal practice is to issue cumulative preference shares when dividends, if not paid in time, remain accumulated. Before issuing preference shares, company promoters should ascertain whether companies are capable of earning enough to pay preference dividends and debenture interest, if any.

Ordinary and deferred shareholders undertake risks of the business and wait to receive their dividends in due course.

In issuing different securities, attention should be paid to making them reasonably attractive for prospective investors. They should ensure the security of the principal and the stability of income. People buy securities in order to earn a fair income. Their marketability and value as collaterals are important features of securities. The exemption from taxation is an additional incentive. The denomination and periods for which securities are issued should be determined according to the character of investors who are to be approached. Although everybody likes an appreciation in the value of securities, genuine investors are interested more in ensuring that their holdings do not depreciate in value.

Watered Capital

Sometimes a company buys a business by paying for its goodwill a price higher than is justified by its worth. In such a case the capital of the company is said to be "watered" or inflated. The purchase price is shown among "intangible" assets of the company. Another example is found when a company issues, free of charge, bonus shares to its shareholders. In such a case the share capital is increased without receiving any money. This could result in the reduction of dividends. Instances of watered capital are found when assets of a company are acquired at inflated values. It should, however, be observed that watered capital and over-capitalisation do not necessarily mean the same thing. Al-

though stocks are watered, the earning capacity of a company may be high enough to maintain share values at par.

Terms of Issue of Share Capital

The terms and conditions under which the shares of a company are issued are usually mentioned in its articles of association. When shares are issued at a price below their face value, they are said to be sold at a discount ; if the price is equal to their nominal value, they are sold at par ; when the price is higher than their nominal value, shares are sold at a premium. The company law does not prevent any kind of selling excepting that shares can be sold at a discount under only the following conditions: (a) The company must be at least of one year's standing, (b) the issue of the shares and the rate of discount must be decided in a general meeting of the company and must be sanctioned by a court, (c) the discount rate cannot exceed 10 per cent, and (d) the issue must be made within two months of the court's sanction.

The issue of shares at a discount of more than 10 per cent. may be permitted by the Central Government in a special case.

Where a company issues shares at a premium the aggregate amount of the premiums received is to be kept in a separate account called "Share Premium Account" and the said amount may be utilised by the company for specific purposes such as writing off preliminary expenses, issuing fully paid bonus shares, etc.

Share

The capital of a limited liability company is subscribed in equal units, which are the multiples of the company's capital, and each unit is known as the share of the company. The shareholders are the owners of a company, and the holding of a share determines the rights and obligations of a shareholder *vis-a-vis* the company and its creditors. "A share is a right to receive a certain portion of the profits, and of the capital of a company when it is wound up". These shares are movable property and transferable according to the Articles of Association of a company.

Kinds of Shares

There are many kinds of shares. *Ordinary shares* participate in profits of a company after all preferential rights have been

satisfied. Deferred interests, if there be any, are met after ordinary shares are given a certain percentage of profits.

Preference shares participate in profits of a company in preference to any other interest, and they are often *cumulative*, that is to say, if their apportioned rates of profits are not given in any year, the unpaid balance remains credited to the accounts of the preference shareholders to be paid before any other interest is met. In simple preference shares dividends are not paid in this way. When preference shares participate like ordinary shares in profits of a company in addition to their fixed profits, they are known as *participating preference shares*. When preference shares are redeemable out of the profits by the creation of a "capital redemption reserve fund", or by new issues of shares, or out of the sale proceeds of the property of the company, they are called *redeemable preference shares*. But these shares are not usually redeemed unless they are fully paid up.

Ordinary shares may be divided into *preferred ordinary* and *deferred ordinary shares*. The former are entitled to a fixed percentage of profits before any portion of the profits can be distributed to deferred shareholders.

Deferred shareholders are entitled to the whole or a portion of the residual dividends or profits of a company after all other classes of shareholders have received dividends. They are usually issued to promoters, underwriters or founders of the company, and carry a nominal value. In such cases, they are known as Promoters', Founders', or Management shares. They confer exceptional voting rights upon holders. Such shares may not get much dividend during the early stage of a company, but at a later stage they may earn high rates of dividend. They may be used for exercising control over the company by paying a relatively small amount of money. These shares cannot now be issued under the Companies Act, which has related voting rights of shareholders to the value of shares.

Shares issued by a company after 1st April, 1956 can be of two kinds such as equity or ordinary shares and preference shares. The voting rights of an ordinary shareholder must be in proportion to his share in the paid-up capital of the company and the issue of any share carrying disproportionate voting rights is prohibited. The companies which issued shares with disproportionate

voting rights are obliged to bring the voting rights attached thereto in proportion to rights enjoyed by other equity shareholders. Further, a company under the Act is prohibited from issuing shares carrying disproportionate rights in the payment of dividends.

Conflict of Interest

A conflict of interest may prevail in a public limited company. Consisting of several shareholders, a company has to be managed by representatives of shareholders, who express their wishes in meetings convened from time to time. Any decision made by a majority is binding upon the company. It is therefore understandable that a public limited company can be run despite the opposition from a minority of shareholders. This apart, different shareholders' interests may be diverse. There may be preference and ordinary shareholders. Having their dividends fixed, preference shareholders would like to plough back profits into reserves for strengthening the financial position of the company. Dividends on ordinary shares are paid out of profits so the ordinary shareholders do not generally like the building of big reserves by sacrificing their interests. There are instances in which the managing agents or directors follow policies, which are not liked by shareholders. The management whose remuneration is linked with profits, may be tempted to inflate profits to the detriment of the shareholders.

No Par Value Share

In India the share of a company has a fixed par value and the liability of a shareholder is limited to this amount. In other countries companies may have shares which have no par value. The share capital of a company is sub-divided into a number of shares which do not carry any fixed nominal value. Dividends are declared per share instead of being expressed as a percentage of the value of a share. The practice of having no par value shares is found useful so people in several countries are pressing for the introduction of these shares. It is claimed that if dividends of a company are declared per share instead of being expressed in terms of a percentage of the nominal value of a share a great

deal of misunderstanding can be avoided. Under the present system of paying dividends as a percentage of the value of a share people consider dividends high in relation to the paid-up value of a share. This is especially true in cases of established companies which have large reserves. Judging dividends merely in terms of the share capital is wrong, because profits of a company are earned by employing the total funds of a company and not merely by the share capital. Dividends should be judged on the basis of the entire working capital of a company and not on the basis of merely the paid-up capital.

This apart, the market value of a share is determined by the amount of dividends paid on a share. As a result the price of a share in an established company is much higher than the par value of the share. This gives an inflated estimation of the value of a share. If shares carry no fixed par value, the market value of a share will not give a misleading impression because there will be no comparison between the market value of a share and its par value. In fact the par value of a share should be no basis for judging the market value which is based on the overall financial position of a company. Total reserves and other funds of a company are taken into consideration in assessing the market value of a share.

Considering the merit of no par value shares they deserve attention. It is true that initial difficulties may have to be faced in introducing these shares.

Share Certificate

A company issues to every shareholder a certificate stating the number and class of the share, the amount paid on it, and the name of the holder. It is signed by the authorised agent of the company. A share certificate must be complete and ready for delivery within three months of the allotment of the shares, or of registration of their transfer. Although a share certificate is not a negotiable instrument, it is transferable by endorsement and delivery. A scrip or a scrip certificate is a provisional share certificate, and it is temporarily issued in lieu of a share certificate.

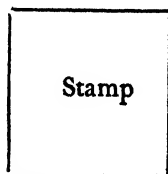
If a company refuses to register a share, it must intimate the party concerned within 2 months of the lodgment of the instrument of transfer. If a company refuses to register a transfer the

proposed transferee may apply either to the court or to the Government of India for relief.

Share Warrant

A share warrant denotes an instrument issued by a company regarding a fully paid-up share, stating that the bearer of the warrant is entitled to the shares mentioned therein. *Dividend Coupons* are attached to a share warrant, and one is entitled to receive dividends on the shares mentioned in the warrant on the production of the coupons on due dates. Particulars of a share warrant must be kept in a Register of Members. The name of a holder of a warrant may be registered in a Register of Members on surrendering the warrant for cancellation, though he may be regarded as a member even without such a surrender, if the Articles of Association permit.

A public company can issue bearer share warrants with the previous approval of the Central Government.



SHARE WARRANT

The.....Company, Limited.
Capital Rs.....divided into.....shares of..
Rs.....each. No.....

This is to certify that the Bearer of this Warrant is the proprietor of.....shares of Rs.....each fully paid, numbered from.....to.....inclusive in the.....Company, Limited, subject to the Articles of Association of the Company.

Seal.

Given under the Common Seal of the Company.

This.....day of....., 1958.

.....Director.

.....Director.

.....Secretary.

Registered Office.....

SHARE CERTIFICATE

The.....Company, Limited.

Certificate No.....

Capital Rs.....

Number of Shares.....

This is to certify that.....of.....
is the registered proprietor of.....fully paid up shares
of Rs.....each Nos.....to.....
inclusive in the.....Co. Ltd., subject to the
Articles of Association of the Company.

Given under the Common Seal of the Company.

This.....

.....Directors.

Seal.

.....Secretary.

No transfer of any of the above mentioned shares can be registered without the production of the certificate.

Members or Shareholders of a Company

Anybody who holds a share in a company becomes its proprietor or member. In the case of a company limited by guarantee, one who agrees to guarantee to contribute to the assets of a company on its liquidation becomes its member. In a company limited by shares, one may become a member by (a) subscribing to the Memorandum, (b) agreeing to buy shares and being placed on the Register of Members and (c) obtaining shares transferred to him, and recognised as a shareholder by the company. Heirs and legal representatives of a deceased member become members after having registered their names in the Register of Members. A limited company can become a member of another limited company. Every company must keep a Register of Members, stating the names, addresses, etc., of the members. A company may close its Register for 45 days in a year but not exceeding 30 days at a stretch by giving 7 days' notice in the newspaper.

How to cease to be a Member

One may cease to be a member by (a) transferring his share to another, (b) forfeiture of his share owing to the non-payment of the call money, (c) death, (d) surrender of shares, and (e) rescission of the contract to buy shares on grounds of fraud.

Forfeiture of Shares

A company has no right of forfeiting a share which is allotted. A company may forfeit a share if a shareholder fails to pay the calls which are due. Usually fourteen days' notice of such a forfeiture must be given to the member before forfeiture, and if payment is not made during such a period, the share can be forfeited by the company by a resolution of the board of directors. Money paid on such a share reverts to the company. After forfeiture, the liability of the member to pay money payable by him in respect of the share on the date of forfeiture continues until and unless the company receives the entire amount of the face value of the share by some other means.

Lien

Articles of Association of a company empower it to have a lien on partly paid-up shares for money payable by the shareholders. The lien extends to dividends and can be enforced by the sale of the shares.

Certificate of Incorporation

When a company files with the Registrar of Companies relevant documents with prescribed fees, the Registrar will issue a Certificate of Incorporation, denoting that the company is incorporated. Then the company acquires a legal entity or personality, and can issue its prospectus. A private company can start work on getting the certificate, but a public company will have to get a commencement certificate before it can begin to function.

Prospectus

The prospectus of a company is a document inviting the public to subscribe to its share capital, loan or debenture. A prospectus, as defined in the Act, means any prospectus, notice, circular, advertisement or other document inviting offers from the public for the subscription or purchase of any share, or deben-

ture of a body corporate. It is issued after registration of a company. It must be dated and signed by the directors or their authorised agents. Signatories to the prospectus are responsible for any misstatement or misrepresentation of facts. Before issuing a prospectus, it must be duly filed with the Registrar of Companies. If a company does not issue a prospectus, it must issue a statement in lieu of a prospectus according to the Act, duly signed by directors or their authorised agents giving all particulars contained in a prospectus. The prospectus is issued with the object of acquainting the public with a full and detailed knowledge of the company.

If a prospectus is advertised in a newspaper or elsewhere without details, it should be clearly stated that it is not an invitation to the public to subscribe for shares or loans but it is merely an offer to the public to apply for a prospectus. A prospectus contains with it an application form for share subscription. The issue of a prospectus in contravention of the Act is punishable.

Contents of Prospectus

A prospectus should contain:—

- (1) The contents of Memorandum, names, addresses and descriptions of signatories, and number of shares subscribed by them.
- (2) Number of shares.
- (3) The shareholders' interest in the company's assets and profits.
- (4) Names, addresses and descriptions of directors.
- (5) Directors' share qualification and their remuneration.
- (6) Names and addresses of auditors.
- (7) Share capital and amount payable on application, allotment and call.
- (8) The minimum subscription on which directors will proceed to allotment.
- (9) Preliminary expenses of the company.
- (10) Any provision in the Articles of Association for the payment of brokerage and commission to agents and brokers.
- (11) Remuneration of the Managing Agents or Managing Director (if any).

- (12) Names and addresses of vendors (if any).
- (13) Purchase price paid to them in cash, shares (partly or fully paid) or debentures. Any sum payable for goodwill must be specifically mentioned.
- (14) Full particulars of interest of any director in the promotion of the company. If any amount is payable to the promoters for their services it must be stated.
- (15) Rights of voting, and rights and dividends of each class of shares.
- (16) Particulars of any material contract made.
- (17) Financial accounts of a company, if any, must be furnished.

SCHEDULE III

(Section 70)

FORM OF STATEMENT IN LIEU OF PROSPECTUS TO BE DELIVERED TO REGISTRAR BY A COMPANY WHICH DOES NOT ISSUE A PROSPECTUS OR WHICH DOES NOT GO TO ALLOTMENT ON A PROSPECTUS ISSUED, AND REPORTS TO BE SET OUT THEREIN.

PART I

FORM OF STATEMENT AND PARTICULARS TO BE CONTAINED THEREIN.
THE COMPANIES ACT, 1956.

Statement in lieu of Prospectus delivered for registration by

[Insert the name of the Company.]

Pursuant to section 70 of the Companies Act, 1956.

Delivered for registration by

| | | | |
|--|---------------|--|-------|
| The nominal share capital of the company ... | Rs. | | |
| Divided into | Shares of Rs. | | each. |

" " "

" " "

| | | |
|--|---------------|-------|
| Amount (if any) of above capital which consists of redeemable preference shares. | Shares of Rs. | each. |
|--|---------------|-------|

The earliest date on which the company has power to redeem these shares.

Names, addresses, descriptions and occupations of—

(a) directors or proposed directors.

- (b) managing director or proposed managing director;
- (c) managing agent or proposed managing agent;
- (d) secretaries and treasurers or proposed secretaries and treasurers;
- (e) manager or proposed manager.

Any provision in the articles of the company, or in any contract irrespective of the time when it was entered into, as to the appointment of and remuneration payable to the persons referred to in (a), (b), (c), (d) and (e) above.

If the share capital of the company is divided into different classes of shares, the right of voting at meetings of the company conferred by, and the rights in respect of capital and dividends attached to, the several classes of shares respectively.

Number and amount of shares and debentures agreed to be issued as fully or partly paid up otherwise than in cash.

1. Shares of Rs. fully paid.
2. Shares upon which Rs. per share credited as paid.
3. Debentures. Rs.

The consideration for the intended issue of those shares and debentures

Number, description and amount of any shares or debentures which any person has or is entitled to be given an option to subscribe for, or to acquire from, a person to whom they have been allotted or agreed to be allotted with a view to his offering them for sale.

4. Consideration:
 1. Shares of Rs. and Debentures of Rs.
 2. Until
 - 3.

Period during which the option is exercisable

Price to be paid for shares or debentures subscribed for or acquired under the option.

4. Consideration:
5. Names and addresses—

Consideration for the option or the right to option.

Persons to whom the option or the right to option was given or, if given to existing shareholders or debenture holders as such, the relevant shares or debentures.

Names, occupations and addresses of vendors of property purchased or acquired, or proposed to be purchased or acquired by the company except where the contract for its purchase or acquisition was entered into in the ordinary course of the business intended to be carried on by the company or the amount of the purchase money is not material.

Amount (in cash, shares or debentures) payable to each separate vendor.

Amount (if any) paid or payable (in cash, shares or debentures) for each such property, specifying amount (if any) paid or payable for goodwill.

| | |
|----------------------|---------|
| Total purchase price | Rs..... |
| Cash ... | Rs..... |
| Shares ... | Rs..... |
| Debentures | Rs..... |
| Goodwill | Rs..... |

Short particulars of every transaction relating to each such property which was completed within the two preceding years and in which any vendor to the company or any person who is, or was at the time thereof, a promoter director or proposed director of the company had any interest, direct or indirect.

Amount (if any) paid or payable as commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares or debentures in the company; or

Amount paid.
" payable.

Rate of the commission Rate per cent.

The number of shares, if any, which persons have agreed to subscribe for a commission.

If it is proposed to acquire any business, the amount, as certified by the persons by whom the accounts of the business have been audited, of the net profits of the business in respect of each of the five years immediately preceding the date of this statement, provided that in the case of a business which has been carried on for less than five years and the accounts of which have only been made up in respect of four years, three years, two years or one year, the above requirements shall have effect as if references to four years, three years, two years or one year, as the case may be, were substituted for references to five years, and in any such case the statement shall say how long the business to be acquired has been carried on.

Where the financial year with respect to which the accounts of the business have been made up is greater or less than a year, references to five years, four years, three years, two years, and one year in this paragraph shall have effect as if references to such number of financial years as in the aggregate, cover a period of not less than five years, four years, three years, two years or one year, as the case may be, were substituted for references to three years, two years and one year respectively.

Estimated amount of preliminary expenses ... Rs.

By whom those expenses have been paid or are payable.

Amount paid or intended to be paid to any promoter. Name of promoter.
Amount Rs.

Consideration for the payment Consideration:

Any other benefit given or intended to be given to any promoter. Name of promoter:
Nature and value of benefit:

Consideration for the benefit Consideration:

Dates of, parties to, and general nature of—

(a) contract appointing or fixing the remuneration of directors, managing director, managing agent, secretaries and treasurers, or managers; and

- (b) every other material contract (other than (i) contracts entered into in the ordinary course of the business intended to be carried on by the company or (ii) entered into more than two years before the delivery of this statement).

Time and place at which (1) the contracts or copies thereof or (2) (i) in the case of a contract not reduced into writing, a memorandum giving full particulars thereof, and (ii) in the case of a contract wholly or partly in a language other than English, a copy of a translation thereof in English or embodying a translation in English of the parts in the other language, as the case may be, being a translation certified in the prescribed manner to be a correct translation, may be inspected.

Names and addresses of the auditors of the company (if any).

Full particulars of the nature and extent of the interest of every director, managing director, managing agent, secretaries and treasurers or manager in the promotion of or in the property proposed to be acquired by the company, or where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares, or otherwise, by any person either to induce him to become, or to qualify him as, a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company.

(Signatures of the persons abovenamed as directors or proposed directors, or of their agents authorised in writing)

Date

Minimum Subscription

The minimum subscription denotes the amount of money, which the original directors of a company state in the Articles of Association and prospectus as the minimum amount to be raised by share subscription in order to provide for specified matters according to the Act, *e.g.*, (a) the price which is to be paid for acquiring any property or paying for any property purchased, or for repaying a loan incurred for the property, (b) preliminary and floatation expenses, or any loan in connection therewith, and (c) working capital. No allotment of shares can be made unless the minimum subscription is obtained. If the

minimum subscription as stated in the prospectus, or when no such minimum is mentioned, the entire amount of share capital is offered for subscription and if it is not subscribed within 180 days after the issue of the prospectus, the entire amount received from the applicants must be returned. In default of such a repayment within ten days, the directors of the company make themselves jointly and severally liable for repaying the amount with interest at the rate of seven per cent per annum from the expiry of the one hundred and ninetieth day after the first issue of the prospectus. Allotments made in violation of the Act shall be voidable at the instance of the applicant within one month of the holding of the statutory meeting although the company may go into liquidation by that time.

Allotment

When a company is incorporated, it issues its prospectus inviting the public to subscribe to the share capital. *Letters of Application*, which are sent to the company are offers made by shareholders to buy shares. They are sent duly signed, in proper form, and according to the terms of the prospectus. Generally a date is fixed on or before which the applications are to be sent. The applications are later considered by the directors. Afterwards the company proceeds to allotment, which means the distribution of shares among the applicants. The company may or may not allot shares to any individual; it may allot any number of shares according to its discretion. If no allotment is made to an individual, he receives a *Letter of Regret*. A *Letter of Allotment* is issued stating to the allottees that the allotment has been made. The company proceeds to allotment according to the Act, and no allotment can be made, unless the minimum share subscription has been made, and at least 5 per cent of such share money must be received in cash by the company.

APPLICATION FOR SHARES

.....Company, Limited.

To The Directors of.....Co., Ltd.

Gentlemen,

Having paid to your bankers the.....Bank, Limited,
the sum of Rs.....being a deposit of two rupees per share

on the number of shares applied for by me hereunder, I hereby apply for 200 shares of Rs. 20 each upon the terms of the prospectus issued by you and dated the.....day of.....1958, and I hereby undertake to accept such shares or any less number and to pay all further sums due thereon and to be bound by the regulations of the company, and I authorise you to place my name upon the register of members.

Signature of Applicant.....

Full Name of Applicant.....

Address.....

Occupation.....

Date.....

A receipt form is annexed to the application form and as soon as the applicant pays the money either at the company's office or at the company's bankers a receipt is given to the applicant. The receipt is given in the following form:—

The....., Limited.

Received on....., from.....the sum of.....
being a deposit of Rs. 10 per share upon.....shares in the
above-named company.

For the.....Bank....., Limited.

.....
Cashier.

Stamp

LETTER OF ALLOTMENT

.....Company, Limited.

Allotment No.....

Dear Sir,

I am instructed by the directors of.....
Company, Limited, to inform you that in response to your
application they have allotted to you 200 shares in the capital of
the company.

The total amount due upon application and
allotment on 200 shares allotted to you is Rs.....

You have already paid on application for 200
 shares Rs.....
 Leaving a balance due from you Rs.....
 which kindly pay to the company's bankers, The.....
 Bank, Limited, Calcutta.

Due notice will be given when the share certificates are ready for issue and these will then be delivered in exchange for this letter, accompanied by the receipts for deposit paid upon application and other payments made.

Enclo.

I am, Sir,
 Yours faithfully,

.....
 Secretary.

Form of Return of Allotments

It should also be noted that in accordance with the requirements of the Companies Act, whenever a company having a share capital makes any allotment of its shares, a return must be filed with the Registrar within one month of the allotment. This return must indicate the number and nominal amount of the shares comprised in the allotment, the names, addresses and occupations of the allottees and amounts if any paid or due or payable on each share. It should be in the form given below:—

RETURN OF ALLOTMENTS

Filing Fee Rs. 3

Return of allotments from the.....of.....19.....to the
of....., 19.....of the.....

Made, pursuant to Section 104 (1)
 to be filed with the Registrar within one month
 after the allotment is made.

Number of shares allotted payable in cash.....
 Nominal amount of shares so allotted.....
 Amount paid or due and payable on each such share.....

Number of shares allotted for a consideration other than cash.....
 Nominal amount of shares so allotted.....
 Amount to be treated as paid on each such share.....

The consideration for which such shares have been allotted
 is as follows:—

.

Presented for Filing by.....

Names, Addresses and Descriptions of the Allottees.

| Name in full | Address | Description | Number of shares allotted. | |
|--------------|---------|-------------|----------------------------|----------|
| | | | Preference | Ordinary |
| | | | | |

.....
 Managing Director.

In the case of shares (not being bonus shares) allotted as fully or partly paid up otherwise than in cash, the company must produce for inspection of the Registrar of Companies the contract in original in this respect and also file with the said Registrar copies thereof duly stamped.

In the case of applicants, who are not allotted the shares they apply for, "Letters of Regret" are forwarded by the company informing them that the shares are not allotted to them. The shares are not allotted for various reasons. This step is usually taken when a larger number of shares than available are applied for. In such a case the directors select applicants whom they consider to be the most desirable persons to be admitted as shareholders, and reject others. It may so happen that though all shares are not applied for, there may be among the applicants some who in the opinion of the directors are not desirable men

to be allowed to buy the shares of the company for some reason or another. In that event they are refused allotment.

LETTER OF REGRET

.....Company, Limited.
To.....

Sir,

I regret to inform you that the directors are unable to allot you any of the shares of this company in compliance with your application for.....shares of the company.

I enclose herewith a cheque for Rs.....being the amount paid by you on the above-mentioned application.

I am Sir,
Yours faithfully,
.....
Secretary.

RECEIPT

25th July, 1958.

Received of the.....Company, Limited
the sum of Rupees.....being the amount deposited by
me on application for shares in the same.

Rs.

Stamp

Form of Call Letter

The directors make calls on the shares as may be found necessary for the work of the company. After having decided

to make a call, the secretary sends out notices of calls which are printed with counterfoils bound in a book form and consecutively numbered.

CALL NOTICE

.....Company, Limited.
No.

Notice of First Call ofper share of ordinary
share (making.....per share called up).

.....Calcutta
Dated.....

Dear Sir,

I beg to give you notice that first call ofper
share has this day been made by the Board in accordance with
the terms of the prospectus. On the.....shares held by
you in this Company, the call amounts to Rs.....
The amount should be remitted to the Company's bankers
(The.....Bank, Ltd.), on or before.....next.

(*Enclo.*)

To.....
.....Street,
Calcutta.

I am, Sir,
Yours faithfully,
.....
Secretary.

Form of Application and Allotment Book

Applications and allotments are entered in the Application and Allotment Books as given below:—

| No. of Application | Applicant's name | Residence | Profession | Date of Application | No. of shares applied for | No. of shares allotted |
|--------------------|------------------|-------------------|------------|---------------------|---------------------------|------------------------|
| 2 | Mr..... | 4/1,..... Cal. | Service | 5th April 1958 | 200 | 200 |

| | | |
|---------------------|------------|--|
| | Co., Ltd., | |
| Name of Member..... | | Date of commencing to be a member..... |
| Address..... | | Date of ceasing to be a member..... |
| Occupation..... | | |

[illegible]

The Register of Members

Names of shareholders are entered in the Register of Members.

The Call Book

For each of the calls made, a Call Book is made with rulings.

SHARE TRANSFER FORM

I.....in consideration of the sum of Rs.....
paid by John....., hereinafter called the said Transferee,
Do hereby bargain, sell, assign and transfer to the
said transferee.....fully paid shares
of.....each numbered.....to.....
inclusive of and in the undertaking called.....
Company Limited.

Certificate of the within men-
tioned shares has been
lodged at the Company's office.

To hold into the said Transferee, his Executors,
Administrators and Assigns, subject to the several con-
ditions on which I held the same immediately before the
execution hereof; and I, the said Transferee do hereby
agree to accept and take the said shares subject to the
conditions aforesaid.

As Witness our Hands and Seals, this.....day
of.....in the year of our Lord one thousand nine
hundred and fifty-five.

Signed, sealed, and delivered.....
by the above-named.....
in the presence of

Witness's

Signature.....
Occupation.....
Address.....

.....SEAL

Signed, sealed and delivered.....
 by the above-named.....
 in the presence of

Witness's
 Signature.....
 Occupation.....
 Address.....
SEAL.

The Share Transfer Form is to be stamped *ad valorem* on the basis of the purchase price paid by a buyer to the seller.

The Share Transfer Book

The Application and Allotment Books, the Call Book and the Share Ledger are subsidiary books kept in order to keep a detailed record of the capital of the company held by shareholders, amounts actually paid by them and amounts due from them. There is an additional book, known as the Share Transfer Register, which records details regarding the transfer of shares from one person to another. A specimen is given below:—

CALL BOOK

First Call of Rs....., made.....April, 1955, making amount paid up on each share Rs.....

| Name | Address | Occupation | Folio in the Register of Members | No. of shares held | Total Amount of Call | Date paid | C.B. Folio | Interest |
|--------|----------------|------------|----------------------------------|--------------------|----------------------|----------------|------------|----------|
| Mr.... | 4/1,..... Cal. | Service | | 200 | Rs..... | 2nd April 1951 | | |

LETTER OF INDEMNITY

If a shareholder loses the share certificate and applies for a fresh certificate to be issued to him he must give a Letter of Indemnity to the company undertaking to make good any loss which the issue of a new certificate may involve. If the number of shares is small and the shareholder is a man of standing and position, his personal indemnity may be deemed sufficient. If the shares involve a large amount of money, a Letter of Guarantee from a substantial party is necessary.

In the case of a loss of Dividend Warrants a similar formality is to be observed. The first step to be taken by a company on being informed of the loss of a Dividend Warrant is to stop the payment of such warrants if they are presented for payment by any other party. The next step is to request the shareholder to give a Letter of Indemnity in the usual form before a duplicate Dividend Warrant is issued.

Letters of Indemnity must be stamped and a company must advertise the loss of share certificates. Relevant costs must be paid by the shareholder concerned. The usual practice is to state in the advertisement particulars of the share certificates lost and their serial numbers.

The following is the usual form of a Letter of Indemnity:
The.....Ltd.

Registered Office
.....2nd April, 1955.

To

The Secretary,
The.....Co., Ltd.

Dear Sir,

In consideration of a fresh certificate for.....fully paid ordinary shares of Rs.....each in the above company number.....to.....(inclusive) having this day been issued to me in place of the original certificates for the said shares previously issued to me and which have been since lost, I hereby undertake to indemnify the company against all costs

and expenses which the company may incur in consequence of the above.....certificates for the said shares.

Yours faithfully,

.....

Certified Transfers

Certified transfers are recognised by the Companies Act which protects the right of the holders thereof.

NEW ISSUES OF SHARES

After first allotment, a company in a general meeting may authorise the increase of the subscribed capital by an issue of new shares. Such an issue will ordinarily be offered pro rata for all holders of equity shares in the first instance. Only on renouncing by a shareholder his right to taking up his portion of such an issue, it can be issued to the public for subscription, according to the discretion of the directors. Such a restriction does not apply to private companies.

If such an issue is to be made after obtaining permission from the Controller of Capital Issues, he is legally entitled to decide whether such an issue is to be made at par or at a premium.

LETTER OF RENUNCIATION

To The.....Co., Ltd.

Being entitled to an allotment at par of.....
Ordinary Shares of Rs.....each in the above Company,
I hereby renounce my right to such allotment and hereby request
you to allot such shares to:—

(Full Name).....

(Address).....

(Signature).....

(Date).....

LETTER OF ACCEPTANCE

To The.....Company, Limited.

I agree to accept.....ordinary shares, and to pay calls thereon, and I desire to be entered on the company's Register of Members in respect thereof:

(Signed).....
 (Address).....
 (Description).....
 (Date).....

Form of Notice of Forfeiture

Where a shareholder fails to pay the calls made on him in accordance with the notice, the directors may at their board meeting decide to forfeit his shares in exercise of powers usually reserved for them by the Articles of Association. In that event, a defaulting shareholder will be liable to pay the call already made in spite of the forfeiture. The letter of forfeiture is usually written as follows:

The.....Co., Ltd.,
Road,
 Calcutta, 2nd January, 1958.

Mr.....
Road,
 Calcutta.

Dear Sir,

I regret that you having failed to comply with the notice forwarded to you on 1st March, 1957, in which I stated that your shares were liable to be forfeited in case the first call made on your shares is not paid on or before the date specified in my last letter, I am directed to inform you that in the meeting held today the.....Ordinary Shares Nos.....inclusive, which were registered in your name, have been duly forfeited by the resolution of the board of directors. The directors have reserved to themselves the power either to re-issue the said shares or to deal with them in any other manner as they may think fit. Mean-

while, I have to point out to you that you are still liable for the payment of the first call, in spite of the forfeiture.

Yours faithfully,

.....
Secretary.

Company Underwriter or Underwriter of Shares

A company underwriter undertakes to guarantee the sale of the whole or a portion of the share or debenture issue made by a company. If he fails to fulfil his guarantee, the unsubscribed portion is taken by himself. He may buy the whole or a portion of an issue either to retain it for himself or to sell it later at a premium.

An underwriter is generally an expert in finance, and has a close knowledge of the psychology of the public. He knows when and how to issue capital. He is an invaluable aid to the promoter of a company. He can guide a promoter who wishes to issue share capital. By undertaking to sell the shares, he relieves the promoter of financial worries, and encourages subscription. He often advances money to the promoter in anticipation of the sale of shares. A trustworthy and reputable underwriter is a great help to the investing public. He will not underwrite any share capital, unless he is convinced of the *bona fides* of the business. By lending his name to an issue, he creates confidence in the public. In India, underwriters are growing fast as a specialised class of financial experts. Firms like Place, Siddons & Gough, Mungeram Bangour & Company, Batliwala & Karani, and Kothari & Sons are popular as company underwriters.

Stocks and Shares

If the capital or loan to a company rests in a single amount which, for transfer purposes, is divisible into amounts denoted like shares by their nominal value, it is called stock. A stock is transacted in multiples of a monetary unit, while a share is an indivisible unit in which the capital of a company is divided for purposes of issue and transfer. A share is transferable as an in-

divisible unit and as a whole. A share may be partly or fully paid-up, while a stock must be fully paid-up. A share possesses a distinct number, while a stock bears no number. A Government stock means a fractional amount of the total Government debt. A debenture stock refers to fractions of the total loan of a company. A company limited by shares may convert all or any of the fully paid-up shares into stock or re-convert any of its stock into fully paid-up shares by a resolution in a general meeting, provided its Articles of Association permit. The rights of shareholders or stockholders remain intact after such changes, but the notice of the change must be given to the Registrar of Companies within 30 days after the change.

Kinds of Stocks

1. A debenture stock is a loan to the company so it has priority of security in regard to the assets of the company. It ranks before other kinds of stock of a company in respect of the payment of interest or dividend.

2. A guaranteed stock means a cumulative preference stock with a prior right to the return of capital. It is not issued for raising a loan. It ranks next to a debenture stock in security over the assets of the company. It has priority over other classes of stocks in respect of the payment of capital, dividend or interest but its claim comes after that of a debenture stock.

3. A preference stock ranks after the above two stocks for preference in the payment of capital, interest or dividend, but it has the priority of payment over ordinary stock.

4. An ordinary or common stock possesses no guarantee, nor any preference. It bears the risk of the business more heavily, and it obtains a return in the form of dividends or interest like ordinary shares.

A company, by its Articles of Association, may enable a stockholder to convert his stock from one class into another, according to his option. In this case, the stock is called a *convertible stock*.

Since the enforcement of the Companies Act, 1956, only two kinds of shares—ordinary and preference shares, including stock—can be issued by a company. The company may pay commission to any person for subscribing to or underwriting the shares up to 5% of the price at which the shares are issued, if such a payment

is authorised by the Articles of Association of the company. The call on shares of the same class should be made on a uniform basis. The payment of dividend can be made only in proportion to the amount of capital paid in respect of each share. The right attached to a class of shares can be varied only with the consent of the holders thereof, not being less than three-fourths of the issued shares of that class confirmed by a resolution passed at a separate meeting of such shareholders. If groups of shareholders are dissatisfied with the majority decision, they have a right to appeal to the court against such a decision.

Debenture

A debenture represents a loan taken by a company. It is an instrument issued under the seal of the company, acknowledging its debts to the holder. The terms and conditions of a debenture are endorsed on its back; they mention the rate of interest to be paid and the mode of repayment. A debenture is the promise of a company to repay the loan after a certain period, or at the option of the company, outright or in instalments. It may be secured by a charge on the whole or a portion of the assets of the company, or it may be unsecured.

Since debentures represent loans, a company can issue them if it possesses borrowing powers.

Kinds of Debentures

1. *Naked or ordinary debentures* are issued by a company without any security for the repayment of capital, or interest.

2. *Mortgage Debentures or Mortgage Bonds* possess a charge on the whole or a portion of the assets of the company for the payment of interest and capital. Mortgage debentures may be (a) *Fixed* or (b) *Floating*. In fixed debentures, all or some of the company's assets are mortgaged specifically for securing the debentures, and the company can deal with those mortgaged assets with the consent of the debenture-holders. The company cannot change such assets without the consent of the debenture-holders. Debentures are called floating if the charge on the assets of the company is similar to a lien on the assets, and the company can deal with the latter in the general interest of the business. Any mortgage of an asset of the company will

be void against a liquidator or a creditor if it is not registered within 21 days after the mortgage is executed.

3. In *redeemable debentures*, a company has the right to repay the debentures on or after a stated date. They may be redeemed immediately, or gradually. They can be redeemed out of a debenture redemption fund which is created for the purpose, or by the issue of new debentures.

4. In *irredeemable or perpetual debentures*, a company has the right not to repay the principal at any time, except in case the company is wound up, or if there is a default in the payment of interest.

5. In *registered debentures*, the names of the holders are recorded in the books of the company, and they are not transferable by mere delivery. In case a transfer is desired, the transferor must surrender his instrument to the company and execute a transfer deed duly signed by him and the transferee before witnesses. Then the company will issue a fresh instrument to the transferee after cancelling the old one, and the transferee's name will be substituted in the place of the transferor in the books of the company.

6. In *bearer debentures*, the names of the holders are not registered in the books of the company, and they are transferable by mere delivery.

DEBENTURE

No.....

The.....COMPANY, LIMITED.

Incorporated Under the Companies Act.

Registered Office.....

Issue of.....First Mortgage Debentures to Bearer,
carrying interest at the rate of.....per annum.

DEBENTURE

1. The.....Company Limited (hereinafter called "The Company") will, on the.....or on such earlier day as the principal moneys hereby secured become payable in

accordance with the conditions endorsed hereon, pay to the bearer on presentation of this Debenture the sum of.....

2. The Company will, in the meantime, pay interest thereon at the rate of.....per cent. per annum by equal yearly payments on every 1st day of.....and 1st day of.....in accordance with coupons annexed hereto.
3. The Company hereby charges with such payments its undertaking and all its properties whatsoever and wheresoever, both present and future.
4. This Debenture is issued subject to and with benefit of the condition endorsed hereon, which are to be deemed part of it.
5. Given under the Common Seal of the Company thisday of.....1958

SEAL.....Directors.

.....Secretary.

INTEREST COUPON

THE.....COMPANY, LIMITED,

DEBENTURE No.....INTEREST COUPON No.....

For.....(less income tax) on year's interest due the.....day of.....and payable at the.....Bank Limited or at the registered office of the Company.

.....

Secretary

Debentures and Shares

A debenture is a loan of a company, while a share represents its capital. A shareholder is a proprietor of the company, takes

part in its management, and participates in the profits by receiving dividends. A debenture-holder is a creditor of the company. He merely gets a fixed rate of interest, whether the company makes a profit or incurs a loss. The share capital cannot be refunded, except in the case of redeemable preference capital, or in the case of liquidation of a company, or if the capital is reduced. The debentures of a company are usually repaid. Rights of debenture-holders rank before those of shareholders in respect of payments if the business is liquidated or wound up. Shares cannot be secured by a charge on the assets of a company.

Since the introduction of the Companies Act, no company can issue debentures carrying any voting right in respect of any meeting of the company. If the debentures issued create a charge, the particulars of the charge have to be filed with the Registrar within 21 days after the execution of the deed containing the charge.

Dividends

A dividend is a payment made to the shareholders of a company for the money they invest in the shares of the company. Dividends cannot usually be paid except out of profits so they vary according to the size of the profits. They are recommended by the directors on the basis of the auditor's report, and are sanctioned by shareholders in a general meeting.

An *interim dividend* can be declared by the directors, if the Articles of Association of a company permit, between two ordinary general meetings. It does not require the confirmation of shareholders at the time of payment, although the directors generally declare interim dividends if they feel that the final dividends can be paid at least at the same rate as the interim ones.

The Companies Act provides that a dividend must be paid to shareholders or to his order within three months of the date after it is declared.

FORM OF THE COPY OF THE REGISTER OF DIRECTORS

A complete register of directors, managing director, managing agents, secretary and treasurer, manager and secretary, must be

THIS PRECEDES A DIVIDEND WARRANT

The.....Company, Limited.

To.....

Date.....

Address.....

Dear Sir,

Pursuant to resolution passed in the General Meeting today,
I beg to hand you a Warrant for the Dividend on your shares in
respect of the year ending.....

Rs. nP.

Dividend.....per Share.....

On.....Shares.....

Less Income-Tax @.....in the Rupee.....

I certify that Income-Tax on the entire amount has been paid
by us to the Government of India.

.....
Secretary

DIVIDEND WARRANT

THE.....COMPANY, LIMITED.

Address.....

Dividend Warrant for the year ending.....

Date.....

No.....

To

THE.....BANK, LIMITED.

Address.....

Pay to.....or order the sum of Rs.....
only, for the above named Company.

.....
.....
.....
Directors

.....
Secretary

kept containing (in case of individuals) their present names, surnames in full, any former name, residential address, nationality, occupation, particular of other directorship, etc., held by each of them and the dates of birth. If the aforesaid offices are held by a body corporate all particulars in respect of such a body corporate and of its directors should be recorded in the register.

The Common Seal

A joint-stock company is a body corporate by the name contained in its Memorandum, having a perpetual succession and a common seal. The name of the company is engraved in legible characters on its seal. This seal is the official signature of the company, which is to be affixed on all important documents as provided in the Articles of Association. The Articles of Association generally provide that the seal shall be fixed in the presence of at least two directors and the secretary. These directors attest the document so sealed, which is thereafter countersigned by the secretary. The seal is kept under lock and key. In order to keep a proper record of the affixing of the seal, it is usually arranged that a special book called the "Seal Book" is maintained, containing a record of occasions when the seal is used, together with a description of the documents on which the seal is affixed. This entry is initialled by the directors present. The entries in the Seal Book should coincide with those in the Minute Book. The Seal Book is ruled as follows:

SEAL BOOK

| Date of Sealing | No. of Minute and page of Minute Book | Documents sealed | Directors' initials | Remarks |
|-----------------|---------------------------------------|------------------|---------------------|---------|
| | | | | |

Statutory Books

A joint-stock company under the Companies Act must maintain the following books which are known as statutory books, *viz.*,

No. of Company.....

Form No. 32.

THE COMPANIES ACT, 1956

Particulars of Directors, Managing Directors, Managing Agents, Secretaries and Treasurers, Manager and Secretary
Pursuant to Section 303

Name of Company..... Limited/Private Limited
Presented by.....

A.—Particulars of the persons who are Directors

| Present name or names and surname, in full. | Any former name or names and surname, in full. | Nationality and Nationality of origin, if different from present Nationality. | Business, Occupation and particulars of directorships, managing agencies, secretaries and treasurerships, and secretariats held. | Date of birth (in case of individual only) | Date of appointment |
|---|--|---|--|--|---------------------|
| (1) | (2) | (3) | (4) | (5) | (7) |

B.—Particular of the Person who is Managing Agent
Persons who are Secretaries and Treasurers.

| Where the Managing Agent is an individual, present name or names and surname in full. Where the Managing Agent is/Secretaries and Treasurers are a firm, the firm name (a). Where the Managing Agent is/Secretaries and Treasurers are a body corporate, the corporate name (b). | Any former name or names and surnames, in full. | Usual residential address (in the case of a corporation or firm, the registered or principal office). | Date of appointment. | Particulars of the other managing agencies or secretaries and treasurerships, directorships, managerships and secretariats held. |
|--|---|---|----------------------|--|
| (1) | (2) | (3) | (4) | (5) |

(1) Register of Members, (2) Register of Directors, (3) Register of Mortgages and Charges, (4) Minute Book, (5) Annual List and Summary Book, (6) Register of Contracts with Companies and Firms in which the Directors are interested, (7) Register of Directors' share-holding, (8) Register containing particulars of appointments of Managing Agents or their associates as selling or buying agents of the company and (9) Register of Investment.

Optional Books

Besides statutory or compulsory books, it is usual for joint-stock companies to keep a large number of optional books, such as (1) Application and Allotment Book, (2) Call Book, (3) Share Certificate Book, (4) Register of Transfers, (5) Debenture Interest Book, (6) Dividend Book, (7) Seal Register, (8) Register of Probates, (9) Directors' Attendance Book, (10) Agenda Book, and (11) Register of Debenture-holders.

The two sets of books are known as the "company set". They are distinct from what is known as "the financial set" of books, which are maintained to register business transactions concerning receipts and payments, purchases and sales, and profits and losses incurred by a company; they record the assets, liabilities and reserve funds of a company.

Class Meetings for Variation or Modification of Rights

A Class Meeting is a meeting of shareholders of a particular class convened in order to ascertain their views, through a resolution, on a question relating to their class. When a reorganisation of share capital is to be made, it is provided that no preference or special privilege attached to or belonging to any class of shares shall be interfered with, except by a resolution passed by a majority of shareholders of that class, holding three-fourths of the share capital of the class. Any resolution so passed shall bind all shareholders of the class. Holders of shares of a particular class are given the privilege by Memorandum or Articles of Association to appoint separate auditors other than those appointed by the company in a general meeting on behalf of the general body of share-holders.

For varying or modifying the rights of shareholders, there are specific provisions in the Companies Act. The relevant section

lays down that in the case of a company whose share capital is divided into different classes of shares, provision is made by the Memorandum or Articles of Association to authorise the variation of rights attached to any class of shares in a company, subject to the consent of a specified proportion of holders of the issued shares of such a class or the sanction of a resolution passed by a separate meeting of holders of the shares. In pursuance of the said provision, if the rights attached to any such class of shares are at any time varied, the holders of not less than 10 percent of the issued shares of such a class, who do not consent to or do not vote in favour of the resolution for variation, may apply to the court for cancelling the variation. If such an application is made, the variation shall have no effect unless and until it is confirmed by the court. An application for this purpose must be made within 21 days after the date on which the consent is given or the resolution is passed. The application may be made on behalf of shareholders who are entitled to make such an application, by one or more members, as the shareholders may appoint in writing for the purpose. The court, after hearing the application or any other person who applies to the court to be heard and who is interested in the application, may (if it is satisfied having regard to all the circumstances of the case that the variation would unfairly prejudice the shareholders of the class represented by the application) disallow the variation. If, on the other hand, the court is not satisfied, it will confirm the variation. The decision of the court on any such application shall be final. The company must, within 15 days after the service of any order made on any such application, forward a copy of the said order to the Registrar of Companies. In the case of default in complying with the provision, the company and every officer who is wilfully in default are liable to a fine not exceeding Rs. 50. The expression "variation" in this section includes "abrogation" and the expression "varied" shall be construed accordingly.

It is also provided that in default of, and subject to, any regulations in the Articles, the meeting of the company may be called at 21 days' notice in writing, served on every member in the manner in which notices are required to be served by Table "A", by any five members. At such a meeting, any person elected by the members present may be chairman, and every member shall have one vote. When it is advertised that a meeting

will be held at which certain resolutions will be proposed, it is within the powers of the directors to issue circulars to the members urging them to vote one way or the other, and they are entitled to collect proxies in their favour. At the meetings of the company, members have no right to be represented by their agents, or solicitors, and the Articles of Association of companies usually provide that in the case of vote by proxies, the proxies shall be members of the company in their own rights.

FORM OF NOTICE AS TO SITUATION

A notice in writing of the situation of the registered office of a company to which all communications and notices are to be addressed has to be filed with the Registrar of Companies. It is given in the following form:

No. of Company Form No. 18.

THE COMPANIES ACT, 1956

Notice of Situation/Change of Situation of Registered office.

Name of Company Limited/Private Limited
Presented by

To the Registrar of Company Limited/
Private Limited/ hereby gives you notice, in accordance with section 146 of the Companies Act, 1956, that the registered office of the Company is situated at
/was removed from to on the day
of 19 .

Signature.

Dated the day of 19 .

* Designation.

* State whether Director, Managing Director, Managing Agent, Secretaries and Treasurers, Manager or Secretary.

The directors of the above-named company hereby give you notice pursuant to the Companies Act that the registered office of the Company is situated at No.....

Dated.....

.....

Secretary.

Interest Allowed to Shareholders on Capital

The Companies Act, through Section 208, empowers a company to pay interest out of capital on shares (on the amount of their paid-up capital for the time being) which are issued for raising money in order to defray the expenses of the construction of any works, buildings or plant which cannot be made profitable before a long period, under the following conditions:

(a) No such payment shall be made unless it is authorised by the Articles of Association or by a special resolution.

(b) No such payment can be made without the previous sanction of the Government of India.

(c) The Government of India may, before giving its sanction, appoint an officer to enquire into the case at the cost of the company.

(d) The payment of interest will be made only for the period which is sanctioned by the Government of India. The period can in no case be extended beyond the close of the half-year following the half-year during which such works, buildings or plant have been completed.

(e) The rate of interest must not exceed 4 percent per annum, or any other rate which may be prescribed by the Government of India.

(f) The payment of interest shall not operate as a reduction of the amount paid-up on shares in respect of which it is paid.

(g) The accounts of the company must show the share capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate.

Kinds of Securities

Shares, stocks and debentures can be of many kinds.

They can be (a) *registered securities*, in which the holders' names are registered in the Register of the company. They are not negotiable instruments. In transferring such securities, the transferor must execute a transfer deed in favour of the transferee, duly signed by both the transferor and the transferee before witnesses. Then the company issues a new certificate carrying the name of the new holder; this will be duly recorded in the company's Register, or the company will endorse the new

shareholder's name on the old certificate and duly record the change in its books.

(b) Banks sometimes manage the issues of companies, Government or corporations. They do not issue any certificate. Only the name of the holder is inscribed in the books of the bank. If such securities are bought and sold, the buyer receives a stock receipt from the recognised broker, which is sent to the bank. The bank inscribes in its books the name of the new holder, and pays him the dividend warrant. These are called *inscribed securities*.

(c) *Bearer securities* are negotiable instruments, and transferable by mere delivery. The bearer is deemed to be the legal holder. A number of interest or dividend coupons are attached to such securities for receiving dividends or interest. A form is attached to them called a *Talon*, on presentation of which fresh coupons are supplied, if required.

Funded and Unfunded Debts

Governments have to borrow from time to time for public purposes. Such loans are called public debts or Government securities. They are of two kinds: (a) *funded* and (b) *unfunded*. *Funded debt* means a permanent debt, which the Government is under no obligation to repay as far as the capital is concerned, though interest is regularly paid. The Government has the right to repay the capital by giving notice. Consols refer to the various British national debts which have been consolidated into one, bearing interest. A Government often creates a *sinking fund* out of the revenue for repaying a funded debt. *Unfunded debt* means the temporary loan of the Government and is repaid after a specified period. Interest is regularly paid. Unfunded debt is often paid out of new issues of Government securities and no sinking fund is created for such a purpose.

Treasury Bills, Treasury Deposit Receipts, Exchequer Bonds, Debentures of Public Bodies.

The Government of India borrows for 91 days by means of *Treasury bills* which are sold at a discount by tender and repaid at par. They carry no interest. The Government of India has

introduced the system of borrowing by means of Treasury deposit receipts, which are repayable after a specified period. *Exchequer Bonds* are issued by the U.K. Government for borrowing. They bear fixed rates of interest, and are repayable on fixed dates. Public bodies, such as the Improvement Trust and the Port Trust, borrow by issuing debentures bearing interest, and they are repayable after a period. Railways and other public companies borrow by means of bond.

Questions

1. You are required to draw up a Memorandum of Association for a company which is shortly going to be registered. State and explain particular matters which are to be dealt with in this document. What is the procedure of altering the objects clause of a Memorandum?
(B. Com., Cal., 1941).
2. What steps at successive stages would you take to float a Limited Liability Company from the inception to the commencement of work?
(B. Com., Cal., 1926).
3. When a new Company is being registered what consideration determine the amount of the Company's Capital and its division into shares of different classes?
(B. Com., Cal., 1927).
4. In the case of a new company which occupies the first two years of its existence in erecting and organising its work, what expenditure incurred during that period do you think might reasonably be capitalised? What formalities must be gone through before this capitalisation is in order?
(B. Com., Cal., 1927).
5. (a) Give the main classes into which securities are divided. Why should a Company appealing to the public for capital sometimes offer a choice of different classes of share?
(b) Differentiate between a Private and a Public Limited Company.
(B. Com., Cal., 1928).
6. What are the peculiar characteristics of Private Companies and what advantages do they possess?
(B. Com., Cal., 1930).
7. What do you understand by Memorandum of Association? How does it differ from the Articles of Association? Discuss the contents of both.
(B. Com., Cal., 1930).
8. What are the steps that are generally taken in the course of the promotion of a company? In this connection discuss fully the question of underwriting the shares in financing of companies.
(B. Com., Cal., 1930).
9. The Joint Stock Company is the only form of organisation in which a permanent opposition of interest can exist. Examine this statement, and show by what devices this opposition to a certain extent may be eliminated.
(B. Com., Cal., 1931).

10. State under what circumstances a company can allow interest upon its share capital. (B. Com., Cal., 1934).
11. A city municipality wants to float a debenture loan on the security of its rates. As Financial Adviser to the municipality, draft a report to be submitted to the Finance Committee, discussing the various considerations that may arise. (B. Com., Cal., 1934).
12. A municipal corporation is shortly to issue a debenture loan. You are a shareholder and one of your clients is interested in such a debenture. Write a letter (complete with all details) to your client, acquainting him with the expected issue and setting forth the probable terms under which the floatation of the loan may be expected. (B. Com., Cal., 1936).
13. What information do you expect to find in the prospectus of a company, and how would you scan it from the standpoint of an investor? (B. Com., Bombay, 1929).
14. Trace the origin of a Public Company, and point out the dangers of this form of business organisation. How far can this be mitigated in practice? (B. Com., Bombay, 1930).
15. Estimate the services of underwriters to business enterprise.
16. Distinguish between the several forms under which the working capital is obtained in joint-stock undertakings. (B. Com., Bombay, 1924).
17. What are the advantages and defects of converting a partnership into a limited company? (B. Com., Lucknow, 1923).
18. Discuss the relative merits of a partnership and a private company as forms of business organisation. (B. Com., Bombay, 1927).
19. Discuss the advantages and disadvantages of partnership and public companies. Suggest remedies to overcome the defects. (B. Com., Bombay, 1929).
20. Set out the main differences between a sole trading concern, a partnership and a public limited company. (B. Com., Bombay, 1924).
21. Consider the principle of Limited Liability in relation to (a) interests of individual business firms, and (b) the general economic interests of a country. (B. Com., Bombay, 1926).
22. What are points which require specially to be considered in the financing of a new business? (B. Com., Bombay, 1927).
23. How does a joint-stock organisation compare with a partnership organisation? Where does the weakness of the latter lie? (M. Com., Cal., 1928).
24. Discuss the functions of a promoter in relation to joint-stock companies. Indicate the motives and effects of stock-watering. (M. Com., Cal., 1928).
25. Distinguish between a Partnership and a Limited Liability Company, carefully explaining the comparative advantages and disadvantages. (B. Com., Cal., 1943).
26. Mention the two most important documents you would think of when a new company is being registered. Give a brief account of the contents of each of these documents. (B. Com., Cal., 1944).

27. What is the Prospectus of a joint-stock company? State briefly five of the principal features of a Prospectus for a new company.
28. What are the steps necessary for the promotion of a Public Limited Company? Describe briefly the essential documents.
(B. Com., Cal., 1948).
29. Company managers in India have been recently issuing bonus shares to existing shareholders by capitalising resources. Analyse fully the causes for such a policy, giving your opinion as to how far it is justified.
(M. Com., Cal., 1951).
30. What is a prospectus? Critically discuss its contents.
(B. Com., Bombay, 1945).
31. Describe the successive stages in the floatation of a joint-stock company.
(B. Com., Allahabad, 1936).
32. How are directors of joint-stock companies selected and appointed in India?
(B. Com., Agra, 1946).
33. Examine the influence of the managing agency system on the structure of industry in India.
(B. Com., Bombay, 1942).
34. Define a Joint-Stock Company. Explain its principal features and state the advantages and disadvantages of this type of business organisation.
(B. Com., Cal., 1947).
35. What are Principal methods by which Capital for business may be raised? State briefly the advantages and disadvantages of each.
(B. Com., Cal., 1947).
36. What are the steps necessary for the promotion of a Public Limited Company? Describe briefly the essential documents.
(B. Com., Cal., 1948).
37. What are the essential features of a Private Limited Company? Explain briefly its advantages and disadvantages.
(B. Com., Cal., 1949).
38. What are the different methods by or sources from which capital for industry may be raised or obtained? Explain the advantages and disadvantages of each.
(B. Com., Cal., 1950).
39. What is a Prospectus? Draft a suitable Prospectus for a newly started Company with imaginary particulars. Can all Companies issue a Prospectus?
(B. Com., Cal., 1951).
40. What is a prospectus? Critically examine its content.
41. What are the Principal methods adopted by Joint-Stock Companies for raising their fixed Capital? Examine their merits and demerits.
(B. Com., Cal., 1953, 1957).
42. What are usually the Contents of Memorandum of Association of a Joint-Stock Company? Why is it called the charter of Rights of a Company?
(B. Com., Cal., 1954).
43. Write short notes on any five of the following:—
(a) T. T. and D. D., (b) Memorandum of Association, (c) Registrar of Joint-Stock Companies, (d) Liquidator, (e) Cash-Credit, (f) Insurable interest, (g) Cartels, (h) Trusts, (i) Trade Unions, (j) Collective bargaining.
(B. Com., Cal., 1955).

44. What are the steps necessary for the promotion of a Public Limited Company? Discuss briefly the essential documents.
(B. Com., Cal., 1956).
45. What steps would you take to float a Limited Liability Company from the inception to the Commencement of business.
(B. Com., Cal., 1957).
46. Discuss the steps a promoter shall have to take in floating a Private Limited Company. Why does the Companies Act 1956 now require that such a Company should mention the word "Private" as a part of its name.
(B. Com., Cal., 1958).

CHAPTER IV

COMPANY MANAGEMENT AND SECRETARIAL PRACTICE

Company Management

In the case of companies, internal management is controlled by the following agencies :

- (1) Shareholders,
- (2) Board of directors,
- (3) Secretaries and agents,
- (4) Departmental managers,
- (5) Employees in the various departments.

In the case of industrial corporations, there is a staff at a factory or mill. There are technical managers, superintendents, foremen and workers.

Directors

Directors are elected by the shareholders from among themselves to conduct the affairs of a company. Shareholders confirm the appointment of directors in general meetings, while in the course of a working year, vacancies are filled by the board of directors themselves. The terms and conditions of their appointment are regulated by the Articles of Association. Directors act collectively. They are representatives of the company, and act on behalf of the shareholders. The management of a company is democratic because shareholders who are the proprietors of the company, manage it through their selected directors.

Appointment of Directors

No person can be appointed, named or proposed as a director in a prospectus unless before the issue of a prospectus, or registration of the Articles of Association, he (a) signs and files with the Registrar of Companies his consent to act as director, (b) signs a memorandum for qualification shares, (c) pays or agrees to pay for such shares, (d) signs and files a contract in writing for taking

and paying for his qualification shares, and (e) makes and files an affidavit with the Registrar of Companies stating that the qualification shares have been registered in his name.

Unless otherwise provided, subscribers to a Memorandum become directors until new directors are selected by shareholders in a general meeting. At least two-thirds of the board of directors must be liable to retire by rotation.

Every public company must have at least three directors.

The Articles of Association fix the number of shares, which qualify for directorship, unless otherwise provided, and qualification shares must be acquired within two months of becoming a director. The Articles of Association provide that a director may be appointed without any share qualification, and that he need not be a shareholder.

If there is a default in the appointment of directors, the subscribers to the Memorandum are to be deemed the directors of the company until the shareholders formally appoint them. Casual vacancies in a board may be filled by the board of directors, but a person so appointed must be subject to retirement at the same time as if he were a director on the day on which a director whose place he takes was appointed.

The Companies Act lays down that if (in the case of a company) a provision is made by Articles of Association or by an agreement entered into between a person and a company or empowering a director or manager of a company to assign his office to another person, any assignment of office made in pursuance of the said provision shall, notwithstanding anything to the contrary contained in the said provision, have no effect unless and until it is approved by a special resolution of a company.

Only individuals may be appointed as directors. A person other than a retiring director will not be eligible for election unless at least 14 days' notice has been given to the company. No director other than the one retiring can be appointed either at the general meeting or by the board of directors to fill a casual vacancy unless he files with the Registrar of Companies his consent to act as a director before the date of his appointment within the limit fixed by the Articles of Association. The number of directors may be increased or decreased by an ordinary resolution of the shareholders. An increase in the number of directors beyond the maximum fixed under the Articles requires both the

amendment thereof and the prior approval of the Central Government. The board of directors, if authorised by the Articles, may appoint additional directors, but such additional directors will retire at the next general meeting of the company. In no case, should the total strength of the directors exceed the limit fixed by the Articles.

No person shall hold the office of director in more than 20 public limited companies. The appointment of a person who has attained the age of 65 as a director can only be made by a resolution requiring a special notice. Further, the appointment of a person who is an associate of the company's managing agents as a director, can be made by a special resolution.

The Act permits a company to provide in its Articles for the appointment of a specified number of directors according to the principle of proportional representation.

The board of directors of a company may, if so authorised by its Articles or by a resolution passed by the company in a general meeting, appoint an alternate director to act for a director during his absence for a period of not less than three months from the State in which the meetings of the board are ordinarily held.

Debenture-holders are not permitted to appoint directors under the Companies Act.

Vacation of Office by a Director

The office of a director may be vacated if he (a) fails to acquire qualification shares within a prescribed time, (b) becomes of unsound mind or insolvent, (c) fails to pay the call money within six months of call, (d) accepts any office of profit, loans or contracts with a company, (e) is absent from three consecutive meetings of a board of directors or is absent for three months, whichever is longer, without the consent of the board, (f) is convicted of a criminal offence against a company, (g) by an order disqualifying him for appointment as a director passed by a court pursuant to Section 203 of the Companies Act, (h) if he or any firm in which he is a partner or any private company of which he is a director accepts a loan in contravention of the provision of the Act, (i) if he acts in contravention of Section 299 which, *inter alia*, provides that a director must disclose his

interest in contracts entered into or to be entered into by the company, (j) if he is removed by a resolution passed at an annual general meeting of the company.

Removal of a Director

Although a director is appointed by shareholders in a general meeting, he can be removed by an ordinary resolution. A director may be removed by an ordinary resolution before the expiry of his period of office. Section 284 of the Act sets out in detail the procedure to be followed if the removal of a director is desired by the shareholders. A special notice is required for the purpose and also for appointing someone else in place of the director so removed.

Powers of Directors

The powers of directors are defined by the Articles of Association of a company in conformity with the Companies Act. The directors act collectively as a body by means of resolutions passed in a board meeting. They cannot delegate their powers unless the Articles of Association permit. The Articles provide for delegating certain special powers to a selected director, known as a Managing Director. The decision of the directors cannot be superseded by shareholders in a general meeting, although the powers given to directors can be altered by shareholders by modifying the Articles by a special resolution. A director is a trustee of the company; he acts in a fiduciary capacity. He must act honestly and diligently in the interests of a company.

Under the provisions of the Act, the board of directors can exercise powers on behalf of the company in the following matters: (a) to make calls on shareholders, (b) to issue debentures, (c) to borrow money, (d) to invest the company's money and (e) to make loans.

The board may, by a resolution passed at a meeting, delegate to the directors or to some other persons specified in the Act, the powers reserved to it, provided the resolution delegating the powers, *inter alia*, fixes a limit on the amount to be lent, borrowed or invested, as the case may be.

If the directors commit an act which is beyond their powers, i.e., *ultra vires*, they are personally liable for the losses, if any. Shareholders of a company may ratify the act in case it is *intra*

vires. Initially, the auditors of a company are appointed by a board of directors and casual vacancies in this respect are filled by them, subject to confirmation by shareholders in a general meeting.

A board of directors can enter into contracts on behalf of a company. For such contracts, they are not personally liable as long as they do not exceed their authority and are not negligent. If they give a personal guarantee in respect of any agreement, they will be liable for such a guarantee. If exceeding their authority the directors apply a company's money for an object other than is authorised by the Memorandum, they are personally liable to make good the amount. If a director signs bills of exchange which do not bear the company's name, he becomes personally liable. Directors who sanction payments on behalf of a company ought to see that the payments are regularly made. They are not responsible for the misconduct of co-directors or other persons employed by a company.

The directors must see that a general meeting is held within 18 months of the date of incorporation of the company. Thereafter it must be held at least once in every calendar year, and not more than 15 months after the preceding general meeting.

The directors cannot enter into contracts with a company for their own interests unless the Articles of Association otherwise provide for, the reason is that they are in a fiduciary position, and their interests may be in conflict with their duties. In practice, all companies provide such powers in their Articles. The Companies Act further lays down that in the case of certain specific contracts made by a director for the sale or supply of goods and materials, the consent of the other directors must be obtained. The directors of a public company or a subsidiary of a public company shall not, except with the consent of a company concerned in a general meeting, (a) sell or dispose of the undertaking of a company or (b) remit any debt due by a director. Directors who wrongfully take the benefit of a contract with a company must indemnify the company.

Directors do not have to possess any special qualification for holding office, but they are bound, while acting as directors, to proceed with such care as can be reasonably expected of them, having regard to the knowledge and experience they possess. In this connection, the Companies Act gives a certain amount of

protection to the directors, managers, managing agents, officers and auditors of a company.

Restrictions on Directors

The board of directors is not permitted, without the consent of the shareholders obtained in a general meeting, to (a) sell or dispose of the whole or substantially the whole of the company's undertaking, (b) remit or give time for the repayment of any debt due by a director, (c) invest other than in trust securities the company's funds, being sale proceeds resulting from the acquisition of its assets, specified and (d) contribute to charity an amount in any year which exceeds Rs. 25,000 or 5 per cent of its net profit, whichever is greater.

Directors are also prohibited from borrowing money (apart from temporary loans obtained from the company's bankers in the ordinary course of business) which exceeds the aggregate of the paid-up capital and free reserves of the company, unless the shareholders in a general meeting empower the board to do so. It is customary for a company to pass an ordinary resolution empowering its directors to borrow in excess of the paid-up capital and free reserves, whether or not such borrowing is immediately required by the company.

Loans of Directors

The Companies Act provides, that, without obtaining the previous approval of the Central Government, a company cannot give any loan to a director or give any guarantee for a loan obtained by any director of the company or of a company which is its holding company or any partner or relative of any such director or any firm in which such a director or relative is a partner or any private company of which such a director is a director or member or any body corporate of which 25% of the equity shares are held or controlled by one or more directors aforesaid.

The Act not only prohibits the grant of a loan by a company to its directors but also to persons, firms and bodies corporate in which any of its directors is interested. A private or a holding company is exempt from the operation of this provision of the Act. Managing Agents or Secretaries and Treasurers are also similarly exempted from the operation of this provision if and only the loan is given to a managed company.

It is provided that if such a provision is contravened, any director who is a party to the contravention shall be punishable with fine which may extend to Rs. 500, and if there is a default in the repayment of the loan, or in discharging a guarantee, he will be liable jointly and severally for the unpaid amount.

Prosecution of Delinquent Directors

Under the old Act, no power was given to a Public Prosecutor to launch a prosecution against delinquent directors. As a result, liquidators were obliged to institute proceedings on their own responsibility and finance such proceedings out of the assets of the company. In many cases, creditors who had lost money were reluctant to waste further amounts on prosecution so delinquent directors and officers escaped punishment. On the recommendations of the Greene Commission the English Act of 1929 introduced provisions by which delinquent directors can be prosecuted at public expense, and such provisions have since been copied by the Companies Act.

It is provided that if it appears to the court in the course of winding up that any director, manager or officer or any member of a company has been guilty of any offence in relation to the company's affairs, the court may, either on the application of a person interested, or on its own motion, direct a liquidator to prosecute the offender himself, or to refer the matter to the Registrar.

Place of Profit held by Directors

It is provided by Section 314 of the Act that without the sanction of the company accorded by a special resolution, no place of profit under the company can be held by a director or by a firm or by a company in which such a director is interested. No special resolution will, however, be necessary for the appointment of such a director as managing director, managing agents, secretary and treasurer, manager, legal or technical adviser or banker of the company.

MEETING OF DIRECTORS

Directors act through a board meeting. When they act as a board, the number required to form a quorum must be present. Their powers are derived from the Articles of Association of a company.

They do the work assigned to them, and cannot delegate powers, unless the Articles authorise them to do so. Such delegation is done by the formation of committees. Each and every director must be given notice of a board meeting at his registered address. If this notice is omitted in the case of a director or an attempt is made to exclude him in any way, the entire proceedings of a meeting can be declared void. In the case of a quorum, the persons present must be competent to transact business and vote. The Articles fix a quorum for a board of directors. A director who is disqualified from voting at a directors' meeting is not necessarily disqualified, for that reason, from voting in his capacity as a shareholder in a shareholders' meeting.

Board meetings should be presided over by a chairman. In joint-stock companies, a chairman is usually a permanent officer. The duties and powers of a chairman in board meetings are similar to those of a chairman in an ordinary meeting.

The general business transacted at a directors' meeting relates to the management of the business of a company, forfeiture of shares, making calls, passing transfer and accounts, recommendation of dividends, appointment of officers, appointment of committees, etc.

A director is not responsible for acts done in a board meeting in which he was not present.

He is not liable for an error of judgment. His duties are of an intermittent nature, and performed at periodical board meetings, and he is not bound to give continuous attention. Though it is not compulsory that a director should attend every meeting, he is reasonably expected to do so.

A director has the right to inspect and take copies of a minute book of directors.

If directors speak honestly and without malice while discharging their duties and discussing the affairs of the company, they will not be liable for any defamatory statement which they make at board meetings.

A meeting of the directors has to be held at least once in three calendar months.

Meetings of a Company

Two kinds of meetings are usually held: (a) meetings of directors, and (b) shareholders' meetings.

Meetings of Directors

The Articles of Association of a company provide for holding meetings of directors. Notice of such meetings must be given to a director. If the Articles provide for meetings at specific periods, no notice is necessary. A director may requisition a meeting at any time. A notice need not state the nature of the business to be transacted in a meeting.

Meetings of Shareholders

There are three kinds of shareholders' meetings: (a) Statutory Meeting, (b) Annual General Meeting, and (c) Extraordinary General Meeting.

Preparation and Work regarding Shareholders' Meeting

In a new company, the first meeting which a secretary arranges is the statutory meeting. The preparation consists of drafting a report, called the statutory report.

Notice re: Statutory Meeting—The Notice convening the Statutory Meeting is generally made out in following form:

The..... Co. Ltd.

Notice of the Statutory Meeting

Notice is hereby given that the Statutory Meeting of the above Company pursuant to the Companies Act will be held at the Registered Office of the Company at..... at..... P.M. (S.T.) on..... the..... Calcutta..... 1958.

By order of the Board

.....
Secretary.

Statutory Meeting

Every public limited company must hold a statutory meeting within a period of not less than one month from the date of commencement of business and not over six months after such a date.

The directors of a company are obliged to circulate to each shareholder a statutory report and to file the report with the Registrar of Companies at least 21 days before the date of a meeting. The report should mention: (a) allotted number of shares, (b) cash received, (c) an abstract of receipts and payments up to date

within seven days of the report, (d) names, addresses and descriptions of directors, auditors, managing agents etc., (e) an account of the preliminary expenses of a company, (f) modifications of a contract to be submitted to shareholders for approval, (g) arrears of calls, (h) names of members of a company and shares held by each, and (i) commission paid as brokerage on sales of shares.

The object of such a meeting is to acquaint the shareholders with the names, descriptions and addresses of all members of a company.

No. of Company

THE COMPANIES ACT, 1956
Statutory Report.
Pursuant to Section 165.

Name of Company
Statutory Report of the
certified and filed pursuant to section 165(5).

Limited,

Presented by

The Board of Directors submits this statutory report to the members in pursuance of section 165.

1. Shares allotted and cash received upto.....(a).

| No. of shares. | Nominal value of shares. | Cash received upto (a). |
|---|--------------------------|-------------------------|
| (a) Allotted subject to payment thereof in cash. | | |
| (i) Equity. | | |
| (ii) Redeemable Preference Shares. | | |
| (iii) Preference shares other than Redeemable preference shares. | | |
| (b) Allotted as fully paid up otherwise than in cash and the consideration for which they have been allotted. | | |
| (i) Equity. | | |
| (ii) Redeemable Preference Shares. | | |
| (iii) Preference shares other than Redeemable preference shares. | | |
| (c) Allotted as partly paid up to the extent of Rs.....per share, and the consideration for which they have been so allotted. | | |
| (i) Equity. | | |
| (ii) Redeemable Preference Shares. | | |
| (iii) Preference shares other than Redeemable preference shares. | | |
| (d) Allotted at a discount of Rs.....per share. | | |
| (i) Equity. | | |
| (ii) Redeemable Preference Shares. | | |
| (iii) Preference shares other than Redeemable preference shares. | | |

(a) The date should be a date within 7 days of the Report.

Annual General Meeting

Every company shall, in addition to any other meeting, hold an annual general meeting within 18 months of its incorporation. The next annual general meeting shall be held within six months after the expiry of the financial year.

The Registrar may, however, for any special reason, extend the time within which any annual general meeting shall be held by a further period not exceeding six months, usually subject to a penalty.

If a company fails to hold its annual general meeting within the prescribed time, the Central Government may call or direct the calling of a general meeting of the company.

NOTICE FOR THE ANNUAL GENERAL MEETING

THE COMPANY, LIMITED.

Address.....

Dated the.....

Notice is hereby given that the Annual General Meeting of the above-named company will be held at.....on the.....day of.....19 .., at..... o'clock, to receive and consider the directors' report, accounts, balance sheet and auditors' report thereon, to elect directors and auditors, sanction the declaration of dividends and to transact other ordinary business of the company.

Notice is also given that the transfer book of the company will be closed from the to the. 1955, both days inclusive.

To.....

By order of the Board,

.....
Secretary.

Extraordinary General Meeting

The extraordinary general meeting of a company is convened to discuss any matter which is not discussed in an ordinary general

meeting. Such special matters may also be discussed in an ordinary general meeting.

This kind of meeting of a company may be called by directors or shareholders. Shareholders holding not less than one-tenth of the issued capital of a company, upon which all calls due are paid, may send a requisition duly signed by them to the directors to call such an extraordinary general meeting. If the directors fail to convene it within 21 days of the requisition, the shareholders may themselves call a meeting, but at least within these months of a requisition. In such a case, those requisitioning the meeting are entitled to recover any reasonable expenses incurred on it.

Section 169 of the Companies Act gives details relating to the procedure for requisitioning and calling such an extraordinary general meeting.

Creditors' Meeting

The court can order a meeting of the creditors of a company to discuss questions about winding it up, or for arranging a compromise between the creditors and the company. The Official Liquidator can requisition a meeting at the instance of the creditors, representing at least one-tenth in value.

Quorum

Quorum means "the fixed number of members of a body whose presence is necessary for the proper and valid transaction of business". Without a quorum, the decision of a meeting is invalid. The Companies Act provides that five members personally present in the case of a public company, and two members personally present in the case of a private company, shall form the quorum of a meeting of the company.

Chairman

Unless otherwise provided, a meeting can select its Chairman, if there is a quorum. His duty is to regulate speeches and decide about points of order. He declares the result of voting. His decision is final, unless otherwise decided by a court. He has the power to adjourn a meeting.

Vote and Poll

Every member has a right to vote.

If a member present in a meeting thinks that voting by a show of hands is unsatisfactory, a poll may be demanded. A poll must be demanded by at least five members, the chairman, or a member holding at least one-tenth of the issued capital of a company, immediately before or after the declaration of the result by the chairman. On a poll, the absent members can give their votes by means of proxies.

Proxy

Proxy is an instrument duly signed by a shareholder, authorising anybody to vote in his behalf. It must be stamped and submitted to the Registered Office of the company at least 48 hours before a meeting.

In the case of a public company, a proxy need not be a member. In any notice issued by a company calling a general meeting, it should be specifically stated that a member is entitled to appoint a proxy and such a proxy need not be a member of the company.

A company cannot issue, at its own cost an invitation to appoint one or more specified persons as proxies.

SCHEDULE IX

FORM OF PROXY

[See Article 62 of the Table A and also section 176 (6)]

I

General Form

".....Name of Company,

I of in the district of
 We
 being a member of the above-named Company hereby appoint
 members of in the district of or failing him,
 of in the district of
 as my proxy to vote for me on my behalf at the
 our us
 annual general meeting (not being an annual general meeting
 general meeting

of the company to be held on the.....day of.....and at any adjournment thereof.

Signed this.....day of....."

Form for affording members an opportunity of voting for or against a resolution

".....Name of Company.....

I
Weof.....

in the district of....., being ^{a member}_{members} of the above-named Company, hereby appoint.of. in the district of., or failing him.of.

.....in the district of....., as ^{my}_{our}

proxy to vote for ^{me}_{us} on ^{my}_{our} behalf at the annual general meeting (not being an annual general meeting) of the company to be held on the.....day of. 19.....and at any adjournment thereof.

Signed this. day of.....19.

Notice for Calling a General Meeting

The general meeting of a company may be called by giving not less than 21 days' clear notice in writing. The notice should be sent to all members of the company, whether or not they are entitled to vote at the meeting. It should specify the place, date and hour of the meeting, and should also contain a statement of the business to be transacted. A copy of the notice should be sent to the auditor of the company.

The consideration of a balance-sheet, the declaration of a dividend, and the appointment of directors and auditors, are deemed to be the ordinary business of an annual general meeting. If a meeting, whether ordinary or extraordinary, is called to consider any other matter, this matter will be deemed to be a special business for which an explanatory statement should be attached to the notice calling the meeting, also giving information about the interest of a director or managing agents.

Resolutions

A motion refers to a proposal put before a meeting, while a resolution means a motion if it is passed in the meeting. There are two kinds of resolutions: (a) *Ordinary* and (b) *Special*.

Ordinary Resolution

An Ordinary resolution is passed by a simple majority of the members present in a general meeting. It deals with the ordinary business for passing the accounts, declaring dividends, electing directors, etc.

Special Resolution

A special resolution must be passed by at least three-fourths of the members present in person or by proxy in a general meeting.

The Companies Act provides for only two types of resolutions—ordinary and special. The ordinary business of a company, appointment of managing agents, fixing of directors' remuneration, etc., are decided by an ordinary resolution, while special resolutions are required for amending the Articles of Association of a company, for voluntary winding up, payments of non-managerial remuneration to its managing agents, appointment of a relative of a director to a place of profit in the company, etc.

Resolution requiring special notice

The Companies Act provides that special notice should be served on the company at least 28 days before a general meeting in respect of certain matters, such as the removal of a director, the appointment of an auditor other than the retiring auditor, or the appointment of a superannuated director.

Circulation of particulars of resolution

A company is obliged under certain circumstances to circulate, among all members, copies of a resolution proposed to be moved by a member or members.

Balance-Sheet, Auditors' and Directors' Reports

The directors of a company get a balance-sheet along with a profit and loss account prepared within six months of the closing of accounts of a company. These accounts are audited by a registered accountant, and laid before the annual general

meeting. Copies of the balance-sheets must be circulated to each shareholder at least 21 days before a meeting. Auditors can attend the meetings for explaining the accounts.

After placing a balance-sheet before an annual general meeting, a copy signed by the secretary or any authorised officer of a company must be filed with the Registrar, with a copy of the annual list of members and a summary as required under the Companies Act.

Along with the balance-sheet, the directors submit a report to shareholders stating the position and prospects of the company and recommending dividends, if any.

DIRECTORS' REPORT TO BE SUBMITTED WITH BALANCE-SHEET AND PROFIT & LOSS ACCOUNT

TO THE SHAREHOLDERS,

THE... ..TEA COMPANY, LTD., Calcutta.

Gentlemen,

Herewith we beg to submit the audited balance-sheet of the Company with the profit and loss account for the year ended 31st December, 1962.

The tea market continues to be dull but there is an optimistic undertone due to the export of 80,00,000 lbs. of tea to Russia a few weeks ago and the prospect of imposition of preferential duty on Empire-grown tea in the ensuing British Budget. If the Russian transaction leads to continued import of tea into Russia, there is likelihood of the tea industry having better days.

In 1961 the Company's garden produced a crop of 8,400 lbs. of tea. The expectation for the current year is 14,000 lbs.

No extension of the garden has been made during the year under report. In order to increase the output of the garden, extension of plantation is necessary and this is not possible without further paid-up capital. The shareholders are, therefore, requested to be prompt in sending their payment of the instalment of share capital lately called up.

As will appear from the attached balance sheet, the company

could not make any profit during the year, and hence no question of dividend or allocation to reserve arises.

Under the Articles of Association three of the seniormost Directors Mr....., Mr.....and Mr..... retire. They have offered themselves for re-election. Messrs.auditors have also sought reappointment., Calcutta.
The.....of April, 1962.

Chairman,
Board of Directors.

SPECIMEN OF CHAIRMAN'S ADDRESS AT AN ANNUAL GENERAL MEETING OF THE STEAM NAVIGATION COMPANY

STRONG FINANCIAL POSITION

The one hundred and fourth Annual General Meeting of the Steam Navigation Company was held in December, 1961, at Leadenhall Street, London, E.C.

Mr....., Chairman, who presided, said :
I am sorry that so long as the war lasts and all our ships continue under requisition to Government it is not possible to furnish details of the year's operation ; but when peace comes we shall hope to be able to return to more normal procedure and give a resumé of the Company's affairs.

The lifting, in part, of the censorship regulations since the printing of our report does, however, permit me to tell you a little about events in the early years of the war, in which some of our ships were concerned.

As you would expect, all our passenger vessels were transferred to war service either immediately before or very soon after the outbreak of hostilities, some as auxiliary war ships and others as transports. The epic struggle of the armed merchant cruiser against overwhelming odds is well known to you all, and it was also reported in the Press at the time that the..... was sunk while on similar duty.

Our fleet was well represented in the Allied landing in North Africa, which contributed so much to the successful campaign in the Mediterranean.

With such a hazardous operation it was only to be expected that losses of ships would occur and we have to deplore the sinking by the enemy of several fine vessels.

High Traditions

The officers and members of the crews of our ships engaged in the landing lived up to the highest traditions of the Mercantile Marine, exposed as they were, at times, to heavy enemy attack, and we were indeed fortunate that our losses of men and ship were not greater.

A number of our personnel have received well-deserved decorations, for their bravery and devotion to duty in this and other subsequent operations, and I would like to give you two instances from the many outstanding deeds I could quote. In one case two cadets of one of our cargo ships, torpedoed in a fierce gale in the North Atlantic in winter, managed by skilful seamanship to keep a lifeboat afloat for nine days until the survivors, who numbered seven only out of an original 38, were rescued by a Catalina flying-boat. Both lads received the George Medal.

The second case refers to a junior engineer in charge of a lifeboat from another of our vessels torpedoed in the Atlantic, who safely brought 19 survivors to land after having been 14 days adrift in bad weather, for which he was awarded the M.B.E.

Post-war Problems

The nearer the end of the war approaches, the more must one's thoughts turn to our post-war activities, and the many problems with which this Company will be faced in reinstating services which have had to be temporarily relinquished in a total mobilisation of men and materials for war.

I can assure you that earnest consideration is being given to this matter with a view to ensuring that, when the time arrives, the Company shall take its rightful place in the worldwide trade routes in which we have been interested for more than a century.

It will be an essential condition of the re-establishment of the British Mercantile Marine to a healthy state that British ship-owners should not be placed in a less favourable position than foreign lines, and in this respect it is encouraging to see that the British Government has this important aspect in mind.

Distribution Maintained

It will be noted from the accounts after certain allocations made by the Board, the balance at the credit of the appropriation account, including the sum of £189,456 brought forward from the previous year, amounts to £442,267.

Interim dividends were paid in May last $2\frac{1}{2}$ per cent. on the Preferred stock and 2 per cent. on the Deferred stock, and it is now proposed that the following final dividends be paid, subject to deduction of income-tax:— $2\frac{1}{2}$ per cent. on the Preferred stock, 3 per cent. on the Deferred stock and a bonus of 3 per cent. on the Deferred stock. The distribution proposed is the same as that agreed in respect of the previous year.

The Company is in a strong financial position, but I would point out that we have a very considerable building programme in front of us to reinstate our fleet, and present indications are that prices of new ships will be exceedingly high. We shall, therefore, need all the liquid resources we have to meet our new tonnage requirements, and satisfactory as they are they may well prove inadequate. Ships are our stock-in-trade, and it must be our first consideration to get our fleet back to an efficient and economic unit.

The Chairman concluded by moving the adoption of the report and accounts, which was seconded by Mr..... and carried unanimously.

The recommendations as to dividends and bonus were approved; the appointment of Mr..... as a director was confirmed.

Sir..... proposed a cordial vote of thanks to the Board, the executive and all the personnel of the Company.

Sir..... seconded the vote, which was cordially approved and the Chairman having briefly acknowledged the compliment, the proceedings terminated.

Books and Files

A joint-stock company must keep, according to the Companies Act, a number of statutory books and registers: (1) *Register of members*, containing the annual list of members and summary of capital and shares under the Companies Act, (2) the *Index of members*, (3) *Register of transfer of shares*, (4) *Minute Book*

for general and directors' meetings, (5) *Register* of directors, managers and managing agents, (6) *Register* of contracts in which directors are interested, (7) *Register* of mortgages and charges, (8) *Register* of debenture-holders and (9) *Account Books* as required under the Companies Act.

Forms of Minutes

Minutes of a meeting are recorded in the *Minute Book* during the progress of the meeting. Often only notes are taken first, and then fair copies are made. The draft book is initialled by a Chairman at the end of a meeting, and a fair copy is signed by a Chairman of the subsequent meeting, and a Secretary.

"Present:—(Here put the name of the Chairman first).

"Mr. in the Chair.

"The notice convening the meeting was read by the Secretary.

"The Minutes of the General Meeting held on. of....., were then read out by the Secretary, confirmed by the meeting, and signed by the Chairman.

"The report of the Directors, and the Statement of the accounts and audits of the Company were unanimously agreed on the motion of Mr..... and seconded by Mr.....

"Upon the motion of the Chairman, seconded by Mr....., it was unanimously resolved that Mr..... be, and, he is hereby declared elected a Director of the Company in place of Mr..... who has resigned".

It is customary to pass a vote of thanks to the Chair before closing the meeting, and this, too, will be recorded. It is not actually necessary, but it is sometimes done, to add a note of the time the meeting lasted, thus: "Duration of Meeting, 1 hour".

If an amendment be moved after the seconding of any motion, it will appear in the Minutes somewhat as follows:—

"It was moved by Mr..... and seconded by Mr....., that the Report and Accounts be adopted.

"Thereupon an Amendment was moved by Mr..... and seconded by Mr....., that (then appears the

amendment from the terms of the paper handed over to the Chairman).

"This amendment was put before the Meeting by the Chairman and rejected.

"The original proposition was then put and carried, the numbers being.....for and.....against."

The various motions and resolutions should be entered in the following form:—

"It was moved by Mr....., seconded by Mr....., and resolved, that" (here follow the terms of the Resolution). If the Resolution is passed unanimously or without any dissent, the word, "unanimously", may be inserted.

FORM OF NOTICE OF A BOARD MEETING

The.....Company, Limited,

Calcutta, 20th March, 1958.

Dear Sir,

I beg to inform you that a meeting of the Directors of the Company will be held at the Registered Office of the Company on Monday, 20th instant at 4 P.M. when your presence is requested.

Yours faithfully,

.....
Secretary.

To

Mr.....

.....Road,

Calcutta.

The following business is to be transacted:

- (1) Purchase of Lands,
- (2) Miscellaneous.

The Agenda.—A secretary should see that a board room is properly arranged on the date fixed for a meeting and all relevant figures, documents, papers and books are kept on a side

table. He should prepare the agenda, *i.e.*, the list of business to be done at the meeting. The items on the agenda should be arranged in order of importance, preferably in consultation with the chairman or one of the most active directors. 'This agenda may be prepared on loose sheets of foolscap paper and a copy of each is placed in front of the seat of each director. The secretary must see that his own notes of the proceedings are accurate.

Form of the Agenda.—The form of a board meeting agenda varies according to the nature of the business which is placed before the board at each meeting. The first and the last items of the agenda invariably recur in almost every board meeting agenda, except that of the first meeting, viz. "Read minutes of the previous meeting", and "Fixing of the date of the next meeting". The agenda of the first board meeting of a limited company generally appears as follows:—

Agenda

Board Meeting, Monday, 20th March, 1962, to be held at the Registered Office of the Company.

- (1) Incorporation of the company and legal adviser to report on same.
- (2) Election of Chairman.
- (3) Appointment of officers, viz. the secretary, the manager and the accountant.
- (4) Approval of draft prospectus.
- (5) Fixing of the date of the next board meeting.

Another Specimen of Agenda

of

Board Meeting, 1st February, 1962, to be held at the Registered Office of the Company.

- (1) Minutes of the last meeting.
- (2) Bank pass book and cash account, as prepared by the accountant, to be submitted for approval.
- (3) Trading returns for the quarter, as prepared by the general manager, to be submitted.
- (4) Election of Mr.....as director of the Company to be considered.

- (5) Purchase of a factory to be considered.
- (6) Miscellaneous.
- (7) Date of the next meeting.

The Minutes.—At the close of a meeting, the secretary should proceed to draft the “minutes” of the meeting. Care should be exercised that the draft represents as accurate a record as possible, because minutes once passed and signed by the chairman of the same or the subsequent meeting constitute *prima facie* evidence of the proceedings. In accordance with the Indian Companies Act, “every company shall cause the minutes of all proceedings of general meetings and of its directors to be entered in books kept for that purpose”. It is also provided that “until the contrary is proved every general meeting of the company, or meeting of directors in respect of the proceedings whereof minutes have been so made, shall be deemed to have been duly called and held, and all proceedings have thereat to have been duly held, and all appointments of directors or liquidators shall be deemed to be valid”. The law insists on at least one minute book being kept. In actual practice, it is found convenient to keep separate books not only for the board and shareholders’ meetings, respectively, but in cases where the board is divided into committees, a separate minute book is also maintained for each committee. The general minute book is open to inspection by members; but the directors’ minute book which registers the proceedings regarding the internal management is not open to members. The minute books should be made of faint ruled foolscap papers, with a broad margin on the left, and an alphabetical index at the beginning or at the end. Each set of minutes entered in these books should be consecutively numbered, abbreviated in the margin and indexed. The minutes are written in the order in which business is done at the meeting. They are written in various forms, and the best form includes the narration as well as the conclusion. The minutes must be accurately and clearly recorded.

The minutes of each meeting should be recorded separately, *i.e.*, each minute should commence on a fresh page. The narration should describe what actually occurs, and conclude with the resolution (if any) passed. The resolution should be recorded in full in the exact wording in which it is passed. Often a secretary is required to draft resolutions passed at board or general meetings.

The minutes are *prima facie* evidence, until the contrary is proved, that the meetings to which they relate have been duly held and that the proceedings recorded are accurate. After the minutes are confirmed and signed, the secretary has no right to alter them on his own responsibility.

THE MINUTE BOOK

The sixth meeting of the Board of Directors was held at the registered office of the company on Wednesday..... at.....p.m.

There were present:—

Mr. in the chair,
 Mr.
 Mr.
 Mr.
 Mr.

DIRECTORS

In attendance:—

Mr., Secretary,
 Mr., Accountant,
 Mr., Manager.

The minutes of the last meeting held on..... were read, approved as correct and signed.

Cash Statements.—The Secretary produced the bank pass book and a financial statement revealing an abstract of cash receipts and payments during the month ended.....1962. It disclosed a balance at the bank of Rs....., and on hand Rs.....The statement was duly put and passed as approved.

Trading Returns.—The Trading Returns were placed, showing a turnover of Rs....., or Rs.....higher than in the previous month. This was due to extra hours worked during the period. The returns, with explanations, were duly approved and passed.

It was submitted by the Works Manager that a new factory was purchased for Rs.....with a view to supplementing the existing production. The purchase was approved and passed as sanctioned.

Resolutions

The minutes need not necessarily consist of resolutions in the usual form. There are, however, cases where formal resolutions are drafted, passed and recorded in the minute book. The following specimen resolutions are given:

1. *Adoption of Draft Prospectus*—Resolved:—That the prospectus of the Company offering.....Ordinary Shares of Rs.....each for subscription, as finally settled at this meeting and signed by the Chairman thereof, be hereby approved, and that such prospectus be published and circulated in accordance with the scheme which has been prepared by Messrs.....

2. *Allotment of Shares*—Resolved:—That.....shares in the capital of the Company of Rs.....each be allotted to Mr.....and that notice of such allotment be given to the said party by the Secretary indicating the allotment money payable by him.

3. *Appointment of an Agent*—Resolved:—That Mr.....be and is hereby appointed agent of the office of this Company in.....on a salary of Rs.....per month, for a period of.....years, commencing from.....and that Mr.....the chairman and director, and Mr.....the secretary, be and are hereby empowered to execute on behalf of the company, a power of attorney in favour of Mr.....the said agents, in such form as the company's legal advisers may think necessary, to enable him to act in the capacity of the agent of.....

4. *Conversion of Shares into Stock*—Resolved:—That the sum of Rs.....Ordinary Shares of Rs.....each now fully paid-up, be and are hereby converted into ordinary stock for Rs.....which shall be transferable on the usual transfer form in any sum of Rs.....or a multiple thereof.

5. *Appointment of a Committee*—Resolved:—That a committee consisting of Messrs.....and.....

the members of this board, be and is hereby appointed to investigate and report on the question of the desirability of opening a factory in....., and to report to this board their opinion and recommendations on this question after proper enquiry.

6. *Forfeiture of Shares*—Resolved:—That.....Ordinary Shares of Rs.....each with Rs.....paid-up and numberedto.....include held by Mr.....be forfeited, he being in arrear with the second call of Rs.....made on the.....in spite of the notice served on him on.....in accordance with Clause.....of the Articles of Association.

7. *Declaration of a Dividend*—Resolved:—That a dividend of.....on each Preference Share, and of Rs.....on each Ordinary Share, be and is now declared out of the net profits of the company's business for the twelve months ended....., being at the rate of.....p.a. on the Preference Shares andp.a. on the Ordinary Shares, and that such dividends shall be paid to the existing shareholders as on the register of shareholders on.....

8. *Alteration of Articles*—Resolved:—That the article No.....of the Articles of Association of the company be altered by omitting the following words therefrom namely:

“.....”

and substituting instead, the following words:

“.....”

9. *Making a Call*—Resolved:—That a second call of Rs.....per share be made upon all the Ordinary Shares of the Company, making in all Rs.....per share called up, the said call to be payable on or before....., to the company's bankers, the Bank....., Ltd., at their.....head office, and that the secretary is hereby instructed to issue the necessary call notices and arrangements with the company's bankers for the collection of call money.

10. *Appointment of a Committee for General Purposes*—Resolved:—That a committee of the following directors, viz., Messrs.....be styled the “general purposes committee”, and that a quarterly report of such committee's proceedings be duly entered in a “general purposes committee minute book”, to be specially provided for that purpose, and that

such reports, when duly approved by the board, be considered as part of the minutes of the board, and read in conjunction therewith.

11. *Alteration of the Name*—Resolved:—That the name of the company be altered from the..... to “the.....” and that the Local Government be communicated with for the purpose of obtaining their consent to such an alteration.

12. *Passing of Transfers*—Resolved:—That the transfer applications Nos.....(inclusive) be and are hereby passed and the seal be affixed to the new certificates, Nos.....to... .. (inclusive) and that the names of the said transferees be entered in the register of members of this company.

13. *Closing of Transfer Books*—Resolved:—That the transfer books of the company be and are hereby closed from.....to, both days inclusive.

14. *Increase of Capital*—Resolved:—That the capital of the company be increased to Rs.....by the creation of..... new Preference Shares of Rs.....each, to be called the new Preference Shares, and to confer on the holders thereof the right to a non-cumulative preferential dividend of.....per annum on the capital, for the time being paid-up on such shares, to be paid out of the profits of each year, and such preference shares to rank both as regards capital and dividend in priority to the original shares in the capital of the company.

15. *Appointment of Finance Committee*—Resolved:—That a finance committee, consisting of three directors, viz., Messrs.of which Mr.....shall be the chairman, be and is hereby appointed to take effect from this day and to hold office for a period of one year from the date hereof; and that the secretary is hereby directed that all propositions regarding outlay or expenditure, immediate or prospective, and all financial statements, e.g., abstracts of receipts and payments prepared periodically as may be fixed by the said committee, or any other financial arrangement whatsoever, must first be submitted to the finance committee to be reported upon, before they are placed before the board.

Secretary

A company requires a full-time officer, conversant with company law and practice, to look after its secretarial work. General

correspondence, supervision, maintenance of proper books, filing returns, convening meetings, recording resolutions, registering transfer of shares, etc., are entrusted to a Secretary.

Functions of a Company Secretary

A "Company Secretary" is an officer with specialised training in secretarial practice and company law and he looks after the secretarial work relating to joint-stock companies.

A secretary is a full-time salaried officer. His position is important as he is in close and continuous touch with the work of the board of directors. The selection of such an important officer is one of the principal steps in the early organization of a company. The choice for the post should vest in an expert with special training and experience in company work and practice. He should control the office staff and possess an impressive personality. He should be a person of honour and integrity and must not use his official position for his own advantage.

Duties At and Before Incorporation.—(a) A Company Secretary must attend all preliminary meetings of a company, convened for recording proceedings of meetings and helping the preparation of a prospectus, (b) attend to all requirements of the Act regarding incorporation and registration. He must see that documents are properly filed. After the incorporation of a company, he must call the first meeting of the board and get the necessary resolutions passed in connection with the election of a chairman, the appointment of a secretary, a manager, an accountant and other responsible officers, the disposal of the Incorporation Certificate and the opening of bank accounts, the signature on cheques and other important documents, etc., (c) see that his own appointment is made and confirmed by a proper resolution at the first meeting of the board, (d) see that the appointment of various sub-committees, such as the transfer committee, the finance committee, works committee, etc., is made, (e) obtain at the earliest opportunity a certificate entitling the company to commence business by filing the necessary papers and documents, (f) call the statutory meeting and get the statutory report prepared.

Duties after Incorporation.—(a) A Company Secretary must acquaint himself thoroughly with the contents of the Memorandum

and Articles of Association and regulations made by a board of directors. (b) He arranges meetings of directors, committees and members, and gets the proceedings recorded in minute books with indices. (c) He looks after the secretarial correspondence and exercises general supervision over the affairs of the company. (d) He ensures that documents are properly sealed according to the regulations in the presence of the directors, under his own counter-signature. (e) He looks after applications, allotments, and calls on shares and debentures, as well as forfeiture of shares. (f) He sees that all documents are properly stamped and filed, according to the requirements of the Companies Act.

Secretary's Office Work.—The secretary is the principal executive officer of a company. As such, he has to act as its agent and look after correspondence. He carries out the instructions of the board of directors. The secretary is expected to exercise the powers delegated to him, and in matters of importance, he is advised to act in consultation with the board, chairman or the committee concerned. He is in charge of managing the office unless there is a specified manager appointed for the purpose, and he should distribute the work among different departments. In a new company, the secretary generally looks after the filing of relevant documents. In an established company he has precedents to follow, but is expected to outline improved methods. A secretary should be able to organise an office in an up-to-date way. It is the usual practice that all office correspondence is opened in the secretary's office and later distributed to other departments. A secretary should obtain from the accountant, from time to time, the required data regarding the purchases, sales, expenses, etc., indicating the progress of the firm. It is his duty to place the necessary figures for consideration before the board of directors.

Among other duties, a secretary should look after the share transfer work of the company. He should see that all entries in the share transfer register are properly made.

The secretary should arrange for the directors' meeting according to the Articles of Association of the company. Proper notices regarding such meetings should be sent to every director, because failure to send such a notice to any director who is entitled to attend a meeting will invalidate all the business which is transacted at that meeting. To the notice convening a board meeting, a slip is usually fixed indicating the date of the meeting and the name

of the director. Every attending director is requested to hand over this slip to the clerk at the entrance of the board room for the convenience of recording the directors' attendance in the directors' attendance-book and the board minute-book.

If special committees of directors are appointed for specific investigations and objects, a secretary is usually placed in charge of drafting the reports of such committees. In addition, a secretary may be requested by the directors to enquire into any special matter and submit his report. In such instances, he should make a thorough investigation into the matter and submit his report along with the relevant data and figures. He is required to prepare summaries of several documents for placing them before the board of directors. He must prepare them carefully, incorporating all important points and avoiding the unnecessary detail.

Chairman.—The first business of a meeting is to elect a chairman, except in the case of a joint-stock company, which has a permanent chairman. If the chairman or the vice-chairman is not present, and the meeting consists of persons with equal rights to preside, they have to elect a chairman. This is done by proposing the name of one of the members. The proposal is seconded and put to the vote. If two or more names are proposed and seconded, they will be put to the vote simultaneously, and the person securing the majority of the votes becomes the chairman of the meeting.

Necessary qualifications.—The chairman of a meeting should be carefully selected. He should possess tact, patience and knowledge. He must be able to tackle difficult situations with skill, courage and diplomacy.

Powers and Duties of the Chair.—The duty of a chairman is to conduct a meeting in an orderly way, and he must see that there is a quorum. The items of a meeting should be taken up in their proper order. The chairman ought to see that no one except the mover of a resolution is allowed a second speech, unless the speech is made in the form of an explanation. Everybody should be given an opportunity to express his views on the subject-matter under discussion. It is the chairman's duty to put motions and resolutions to the vote, and to scrutinise the voting for ascertaining the majority. The first business of a meeting is to call upon the secretary to read the notice convening the meeting and the minutes of the last meeting. The latter are confirmed and coun-

tersigned by the chairman. If necessary, he may address a meeting, and he usually opens a meeting with relevant comments. In the case of an annual general meeting of a public limited company, a chairman explains the report, and reviews the work of the company during the period under question. He is entitled to enforce order. If any member does not behave properly, he may be asked by the chairman to retire and he may be expelled by force, if necessary, provided no more force is applied than is actually required. If the chairman is unable to maintain order, he has the right to adjourn the meeting. In some cases, his right to adjourn a meeting depends upon the constitution of the company concerned, and in instances where the chairman has no right to adjourn a meeting, it can be adjourned with the consent of the members present.

A chairman has a right to vote according to his qualification, *i.e.*, according to the regulations of the body over whose meeting he is presiding. If votes are equally cast on an issue, he, in his capacity as a chairman, has a "casting vote", by the use of which he may help the meeting to come to a decision. The chairman has thus two rights of vote, *viz.*, (1) his *deliberative vote*, which he gives in his capacity as a member of the body, and (2) the *casting vote*, which he gives if there is a tie.

Passing of the Minutes.—The chairman ensures that minutes of the previous meeting are read out and confirmed at a subsequent meeting. This is done to ascertain whether the record of the proceedings at the previous meeting, which has been prepared by the secretary, is accurate.

Propositions and Amendments

When the preliminaries have been completed, the chairman may call upon the person in whose name a proposition in the agenda stands, to move it. Failing that, anyone present may voluntarily rise to move the proposition, and in doing so the chairman should announce the fact and mention the name of the person concerned. In the case of such propositions, and particularly in the case of amendments, the rule to follow is to get them in writing from the movers, along with their signatures. A motion must be framed in an affirmative form. A motion which is not seconded should be dropped, and no note of it should be made in the minutes. On the other hand, once a motion is proposed

and seconded, it becomes the property of the meeting, and neither the proposer nor the seconder has a right to withdraw it without the unanimous consent of the meeting. The mover of a proposition which has not been seconded has no right to speak on it. Where a motion is very long and the chairman thinks that it should be dealt with after being subdivided into two or more portions, he has the authority to do so. A motion duly proposed, seconded and lost, or any amendment to it sharing the same fate, cannot be brought up again for at least three to six months. The mover alone, in his second speech in reply, must restrict himself to the points raised in the course of the discussion on his motion by other members.

The Amendment.—When a motion is proposed and seconded, anyone present may move an amendment. Amendments like a motion, should be framed in an affirmative form. They must be relevant to the question raised by the proposition and they should not make the original motion unintelligible. Amendments may be moved without a notice, unless the regulations of the body concerned provide for a previous notice. The amendment may be moved either to “omit” certain words from the proposition, or to “add” or “substitute” them. A direct negative is not a legitimate amendment, and should not be allowed, because the party offering such a negative motion can secure his object by voting and speaking against the proposition. The person seconding a motion, or amendment, need not speak on it immediately after the proposer, but he may do so at any time before it is put to the vote. Usually, more than one amendment cannot be moved on the same motion by the same person, unless the special regulations of the body concerned allow it. An amendment may be moved on an amendment. When an amendment is proposed and seconded, and everybody has spoken on it, the chairman puts it to the vote. If it is lost, the original motion is taken in hand. If, on the other hand, the amendment is passed, the original motion, as altered by the amendment, is taken up and put to the meeting as a substantive motion.

The Closure.—It may happen that the discussion on a motion or amendment becomes prolonged. In such an event, anyone who thinks that the mind of the meeting is made up, and that the motion should be put to the vote without further waste of time, may do so by proposing a “closure” to the effect that “the question

be now put to the vote". If seconded, the chairman should put it to the vote, if he is satisfied that enough has been said from all sides, and that the discussions are becoming unnecessarily prolonged. If carried, no further discussion on the proposition, or the amendment, should be allowed.

If, however, the motion for closure is lost, the discussions must proceed. The other name for a closure is "gag".

The Previous Question.—When a proposition is moved and seconded, and if some consider it unnecessary or unwise for the company, they may move what is called the "previous question". The general method of putting this proposition is "that this question be not now put". As soon as the proposition is seconded, the chairman should put it to the meeting, because it takes precedence over all other motions. Although no amendment is allowed on this "previous question", it may be discussed but it cannot be superseded by a motion for adjournment. The "previous question" should be put either when the original proposition is placed for discussion, or after the amendment is passed. The amended motion is put before the meeting as a substantive motion. It should not be put during the course of the discussion on the amendment itself. The mover of such a question has no right to reply.

Dilatory Motions.—Such motions or resolutions are moved to prevent or delay the discussion. They are in order if moved in furtherance of the object for which the meeting has been called. The motion for previous question is one such dilatory motion. Another dilatory motion may be to adjourn the meeting. The form of the resolution in such a case will be "that this meeting be now adjourned". A further form of a dilatory motion may be moved to the effect that "this meeting do proceed to the next business"; here, the object of the mover is to drop the discussion of the motion which is before the meeting. The adjournment may also relate to the debate, instead of the adjournment of the whole meeting itself, and it may be moved "that the discussion of the debate on this motion be adjourned to.....". The object of the mover is to adjourn or delay the debate. The mover of the resolution is allowed to speak on such a motion.

Substantive Motion.—When an amendment on a motion is carried, the chairman puts to the meeting the original motion, as modified by the amendment. The amended original is called "the substantive motion".

LAW AND PROCEDURE AT THE MEETING

The chairman of a meeting has the discretion to decide the order in which those attending may speak. If two persons rise to speak, the chairman may call upon the one who rises first to address the meeting. If they rise to speak simultaneously, the chairman decides who should address the meeting first. This right of the chairman is subject to the connivance of the meeting. If, however, the majority at a meeting expresses the desire to hear a particular person first, the chairman should act according to their wishes.

A speaker at a meeting should address the chair and deliver his speech standing. While addressing, he should not call the chairman by name, but should style him "Mr. Chairman". The person addressing should speak, because reading from manuscripts may be objected to by the meeting. The language used must be courteous. Unnecessary repetition should be avoided. Except in committee meetings, no one has a right to make a second speech, unless it is the mover of a proposition. If anyone present finds that something irregular is being done, or any objectionable language or personal remark is being uttered, he may rise to interrupt the speaker with the remark "Mr. Chairman, I am very sorry to have to interrupt, but I must rise on a point of order, etc....." and may give his arguments. The chairman's ruling one way or another on a "point of order" must be taken as final. In case the speaker is referring to something in a previous speaker's address, or to the conduct of anyone present, the party so referred to may also rise and address the chair with the remark, "Mr. Chairman, I am sorry to interrupt, but as a matter of personal explanation I may state that....." The personal explanation should be brief.

The chairman should allow every member to exercise his right and he should see that the minority is not bullied by the majority.

As soon as the chairman calls "order, order", the meeting must obey. The person to whom the words are addressed must take the hint, and others should support the chair. If the chairman proves to be unreasonable, lawful steps should be taken to remove him. In the meeting, every member should submit to the disciplinary conduct of the chair.

Share Hawking

Formerly in Britain, speculative and worthless shares were sold by offers broadcast through letters or personal house-to-house "hawking". The law was later amended and it is unlawful for any person to go from house to house (except to business offices) offering shares for subscription. The law provides that any offer in writing to sell shares to the public made by anybody who is not carrying on the business of buying and selling shares, shall not be lawful unless the said offer is accompanied by a written statement which is dated and signed by the person making it, containing particulars required by the Act. In the case of the shares of a company incorporated outside Britain, any sale offer should be accompanied by a prospectus of the company.

Registration of certain Resolution and Agreement

A copy of every special resolution or agreement relating to the appointment of the managing director and the managing agent has to be filed with the Registrar of Companies within 15 days after it is passed or executed. A copy of the aforesaid resolution or agreement should also be affixed to each copy of the Articles of the company.

Managerial Remuneration

The total remuneration payable by a company to its director, its managing agents or Secretaries and Treasurers, and its manager, if any, shall not exceed 10% of the net profits of the company, to be computed in the manner laid down in the Act. In case of inadequacy of profits, a minimum remuneration not exceeding Rs. 50,000 a year may be paid under certain circumstances to the aforesaid officials of a company. The Central Government has the power to sanction extra payment in deserving cases. Such officials are, however, permitted (under several other provisions of the Act) to draw other non-managerial remuneration for services rendered.

MANAGING AGENCY SYSTEM

Definition

In India, the managing agency system has developed as an important method of managing limited companies. Managing

agents undertake, on behalf of the shareholders, to manage the affairs of a company on payment of remuneration. The Companies Act defines a managing agent "as a person, firm or company entitled to the management of the whole affairs of a company by virtue of an agreement with the latter, and under the control and direction of the directors except to the extent, if any, otherwise provided in the agreement, and includes any person, firm or company occupying such position by whatever name called."

The managing agency system originated in India during the latter part of the nineteenth century. Managing agents helped pioneer industries. They supplied industries with trained and efficient managers, and finance.

Functions

Managing agents promote and pioneer new industries, provide finance, and conduct the day-to-day management of a company like a manager or a managing director.

Statutory Recognition

Managing agents must be given credit for having established many successful industries, but later abuses occurred and continued in full swing until 1936, when the amendment of the Companies Act statutorily recognised the system for the first time. The Act has reduced the powers of managing agents in order to purge the system of many evils.

POWERS AND FUNCTIONS

The Companies Act defines the exact powers of managing agents. Various provisions prevent them from usurping the residual powers, as they used to do before the Act. The underlying principle of the Act is to put the managing agents under the control of the board of directors of a company.

MERITS

An analysis of the working of companies in India suggests that the managing agency system still offers some advantages. Shorn of abuses and malpractices, it can prove to be a useful instrument for developing private enterprise.

Apart from the valuable service which it has rendered in industrial development, a number of advantages are claimed for the managing agency system. Firstly, the costs of management and benefits of management rise in direct proportion to the number of companies managed under one roof. This is certainly true of jute, coal and tea, where large groups are able to offer their members technological, administrative and financial facilities that would be quite outside the reach of isolated units. The proposal to debar companies from appointment as managing agents would only mean that many industrial and business concerns would lose the advantage of continuity in policy and administrative efficiency. The managing agency system, which has been a key factor in Indian industrial development, should be retained, at least for the time being.

Defects

It is claimed that managing agency firms, by controlling more than one concern doing the same or different kinds of business, face strain and exertion. As a result, whatever is saved on administration costs is lost in inefficient management. If managing agents control more than one concern doing the same kind of business, there may be unfair competition. The fortunes or misfortunes of managing agents are likely to influence the working of a company under their management. A good company may be adversely affected if its managing agents do not do well. Managing agents may even manipulate the inside affairs of companies so as to produce bad results for shareholders.

Managing agents have no direct links with the public. They have created a gap between the banks and the public, and the banks in consequence find difficulty in tapping the public for money.

Restrictions on Managing Agents

The Central Government notify that, from such a date as may be specified in the notification, companies engaged in a particular class of industries or business shall not have a managing agent. Upon such notification, the managing agency in that class of industry or business shall cease at the expiry of three years from the date thereof.

A company which is acting as the managing agent of another company should not itself be managed by a managing agent.

The appointment or reappointment of a managing agent can only be made by the company in a general meeting, subject to the prior approval of the Central Government. Such an appointment, after the commencement of the Act, cannot be made for the first time for a period exceeding 15 years and subsequently (renewal) for a period not exceeding 10 years. Further, the reappointment of a managing agent can be made only within two years immediately preceding the expiry of its term. The agreement between a managing agent and the managed company may be varied by an ordinary resolution of the company, subject to the approval of the Central Government. As mentioned later, these conditions have been modified.

All managing agency agreements existing at the commencement of the Act, irrespective of provision therein to the contrary, expired at the latest by 15th August, 1960, unless before that date the agreement was extended in the manner as stated before. After 15th August, 1960, no person, firm or body corporate continues as managing agent for more than ten companies. In arriving at the figure of ten, managed private companies and foreign companies are excluded. The managing agent of a company shall vacate office, if it becomes insolvent, if it is removed from office for gross negligence, if a receiver is appointed by a Court for its property, if it (in case of a firm, its partner; in case of a corporate body, its directors) is sentenced by a court of law to imprisonment for a period of six months or more, or if it is removed from office by the members of the managed company by an ordinary resolution for fraud or breach of trust.

The managing agent may resign by giving notice to the board of directors. But the resignation will not be effective until a statement of the affairs of the company prepared by the board and audited by the auditors is placed before the managed company in a general meeting and approved at that meeting. The transfer of office by a managing agent is subject to the approval of the Central Government.

Similarly, any change in the constitution of the managing agents, whether it is an individual firm or a body corporate, shall not be effective unless it is approved by the Central Government. Every firm or private company which acts as the managing agent of any company is required under the Act to furnish the Govern-

ment with details, particularly regarding the partners of the firm and the directors of the company. The total remuneration payable to the managing agent shall not exceed 10% of the net profits of the managed company, to be compiled in the manner laid down in the Act. Additional remuneration and a minimum remuneration, subject to a maximum of Rs. 50,000, may be paid to a managing agent, if approved by the company as also by the Central Government. The managing agent is debarred from drawing remuneration before the audited accounts of the managed company have been laid before it in a general meeting. But the minimum remuneration which a managing agent is entitled to may be paid in suitable instalments. A managing agent is also not allowed to draw any office allowance but may be reimbursed in respect of any expenses incurred by it on behalf of the company. The managing agent's appointment as selling agent for the company's products in India is prohibited. Similarly, the managing agent or its associate may not receive any payment in respect of goods purchased on behalf of the managed company, if such a purchase is made in India. A company, by an ordinary resolution, may allow the managing agent or its associate to retain any commission received by it or its associate from a third party which has supplied goods or rendered services to the managed company, but the price or rate of goods supplied or services rendered should be reasonable. Further, if a special resolution is passed by the managed company, the managing agent or its associate may enter into a contract with the managed company for the sale, purchase or supply of any property or for rendering particular services.

The particulars of all contracts referred to in the preceding paragraphs should be entered in a separate register to be maintained by the managed company. All contracts relating to selling agencies, buying agencies, etc., between the managing agent and/or its associate and the managed company which existed at the commencement of the Act terminated on 1st March, 1958. If the managing agent or its associate receives any remuneration in contravention of any provision of the Act, it shall hold the whole amount in trust for the managed company. The managing agent is entitled to only limited compensation in case of loss of office, and in certain cases no compensation can be paid to the managing agent under the Act.

The managing agent will exercise its powers in respect of the managed company, subject to the supervision, direction and control of the board of directors, who are prohibited from delegating certain powers to the managing agent, such as the appointment of the manager of the company and the purchase of capital goods.

Financial arrangements between the managing agent, its associate and the managed company, as also the interlocking of funds, are prohibited. No managed company can grant any loan to its managing agent or its associate without the prior approval of the Central Government. A sum not exceeding Rs. 20,000 of the managed company can be retained by the managing agents in a running account.

Companies which are under the management of one managing agent, are prohibited from advancing money to one another, unless such a financial arrangement is sanctioned by the shareholders of the lending company by a special resolution.

A managing agent is prohibited from doing such business on its own account as to compete with the business of the managed company. If it does such business in contravention of this provision, the amount received by the managing agent shall be deemed to be held by it in trust for the managed company.

A managing agent may not nominate more than one-third of the number of directors of the managed company subject to a maximum of two.

Remuneration of Managing Agents

In supersession of the provisions of the Companies Act, a sliding scale of commission as remuneration for managing agents and secretaries and treasurers has been fixed by the Government of India.

The remuneration which has been fixed on the advice of the Company Law Advisory Commission varies from ten percent on the first Rs. 10,00,000 of net profit to four percent on any sum over Rs. 1,00,00,000 for managing agents and from $7\frac{1}{2}$ percent on the first Rs. 10,00,000 of net profit to three percent on any sum over Rs. 1,00,00,000 for secretaries and treasurers.

The Government has also decided that the term of office should ordinarily be 10 years when a company appoints managing agents or secretaries and treasurers for the first time and five years on reappointment or successive appointments.

The scale of commission for managing agents will be 10 per cent on the first Rs. 10,00,000 or fraction thereof; nine percent on the next Rs. 10,00,000 or fraction thereof; eight percent on the next Rs. 10,00,000 or fraction thereof; seven percent on the next Rs. 10,00,000 or fraction thereof; six percent on the next Rs. 10,00,000 or fraction thereof; $5\frac{1}{2}$ percent on the next Rs. 25,00,000 or fraction thereof; five percent on the next Rs. 25,00,000 or fraction thereof and four percent on any sum over Rs. 1,00,00,000.

For secretaries and treasurers the scale of commission will be $7\frac{1}{2}$ percent on the first Rs. 10,00,000 or fraction thereof; $6\frac{1}{2}$ percent on the next Rs. 10,00,000 or fraction thereof; six percent on the next Rs. 10,00,000 or fraction thereof; $5\frac{1}{4}$ percent on the next Rs. 10,00,000 or fraction thereof; $4\frac{1}{2}$ percent on the next Rs. 10,00,000 or fraction thereof; $4\frac{1}{8}$ percent on the next Rs. 25,00,000 or fraction thereof; $3\frac{3}{4}$ percent on the next Rs. 25,00,000 or fraction thereof and three percent on any sum over Rs. 1,00,00,000.

Secretaries and Treasurers

The Act permits the appointment of a firm or a body corporate as the Secretaries and Treasurers of a company. The provisions of the Act relating to managing agents apply *mutatis mutandis* to Secretaries and Treasurers, but with certain modifications.

Secretaries and Treasurers are entitled to a maximum commission of $7\frac{1}{2}$ % of the net profits of a company, whereas a managing agent is permitted to draw up to 10% of such profits. A firm and a body corporate may be appointed as Secretaries and Treasurers for any number of companies, whereas a managing agent may not be permitted to have more than ten companies under its management after 15th August, 1960.

Secretaries and Treasurers are, however, debarred from nominating directors to the board of a company or companies of which they are the Secretaries.

Managing Director

A company can only appoint a managing director for the first time after the commencement of the Act with the prior approval

of the Central Government. Only an individual can be appointed as a managing director. A person may not function as a managing director for more than two companies and his appointment shall not be for a term exceeding five years at a time. Persons holding the office of a managing director at the commencement of the Act should also vacate their offices on the expiry of five years afterwards. The total remuneration of a managing director should not, in the ordinary course, exceed 10% of the net profit of the company.

Manager

A company may appoint an individual as a manager. The provision relating to the managing director will, *mutatis mutandis*, apply to a manager.

Associate of Managing Agents or Secretaries & Treasurers

A large number of individual firms, body corporates in which managing agents or Secretaries and Treasurers are interested are deemed to be their associates. The restrictions relating to managing agents, etc., also apply to such associates. The intention is to prevent the evasion of the provisions of the Companies Act through *benami* transactions.

Prevention of Oppression and Mismanagement

Suitable powers have been given to the shareholders of a company for applying either to the Central Government or to the Court against mismanagement or the oppression of the minority by the management of the company. One hundred members of a company or members holding one-tenth of the issued share capital may apply to the Court for relief against the alleged oppression or mismanagement. The Court has been given wide powers under the statute to grant relief to the applicant, particularly with reference to the future management of the company, termination or setting aside of agreements between the company and its managing director, managing agents, etc. The Court may also make interim orders in the matter. Similarly 100 members of a

company, or members owning 10% of its share capital may apply to the Central Government for relief against oppression, mismanagement or undesirable changes in the constitution of the management of the company. The Government may, on such application, appoint its nominee on the board of directors of the company, stipulate that no change in the board of directors shall take place, or decide that the company shall proceed to elect its directors on the basis of proportional representation.

Investigation of the Affairs of a Company

Wide powers have been conferred on the Government to investigate the affairs of a company on an application to that effect by 100 members, or by members holding at least 10% of the equity shares of the company, or by the Registrar of Companies. The Central Government may also, on its own initiative, appoint inspectors to investigate the affairs of a company. On completion of the investigation, the Central Government may start legal proceedings, both criminal and civil, against the offending person or persons or may even pray to the Court for the winding up of the company.

Advisory Commission

The Companies Act provides for the appointment of an Advisory Commission to advise the Central Government on the various duties which it has been authorised to discharge by the Act. For making an enquiry, the Advisory Commission may ask for the books and documents relating to matters under enquiry from the company. It can call for the information which it may require. It may inspect the books and other documents of the company. It may ask any officer of the company to give evidence.

Provisions relating to Accounts

A holding company should publish the balance-sheet of its subsidiary company along with its own. The auditor is required to certify the balance-sheet as giving a true and fair view of the state of affairs of the company, instead of a "true and correct view" as before. The balance-sheet and the profit and loss account of a

company have to be prepared in a form set out as a schedule of the Companies Act. The form provides for the disclosure of substantial information.

Provisions relating to Audit

The provisions relating to audit have been tightened up under the Companies Act. An auditor other than the retiring auditor of a company cannot be appointed without a resolution of which a special notice must be received by the company. A retiring auditor may make a statement before the meeting of the shareholders why his reappointment is being opposed. An auditor, who must be a chartered accountant entitled to practise in India, should be appointed by the shareholders at an annual general meeting. He cannot be removed before his term expires without the consent of the Central Government. Only an individual or a firm can be appointed as auditor, and he must not be an employee of the company or substantially indebted to it or interested in managing agent or Secretaries and Treasurers of the company. The auditor is entitled to receive notice of a general meeting and attend it.

Registration of Mortgages and Charges

Charges created by a company in respect of real properties, calls made but not paid on shares, goodwill or patent, copyright and trade mark or licence, should be registered by a company within 21 days of the creation of such a charge. If a charge so created is not registered, the company is liable for penalty and the charge is void against the other creditors and liquidators of the company.

Private Company

By virtue of the new section 43A of the Companies Act, 1956 as amended in 1960, a number of private companies became public companies from 28th March, 1961. A company which was a private company before the enactment of section 43A will, however, continue to remain so, if it fulfils immediately before 28th March, 1961 either of the conditions laid down under sub-section (6) thereof.

All the provisions of the Act which are applicable to a public company will after 28th March 1961 generally apply to a company, which has become a public company by virtue of section 43A. However, the provisions of section 12 (1) and 45 of the Act which require a public company to have at least seven members will not apply to a section 43A company. The articles of association of such a company may continue to contain a provision similar to that in section 3(1) (iii) which is applicable to private companies. Section 44 also is not applicable to a private company, when it becomes a public company by virtue of section 43A and consequently such a company will not be required to file with the Registrar a statement in lieu of prospectus under section 44 (1) (b) of the Act. When it intends to raise subscriptions from the public, the company must comply with the requirements of Section 70.

In order to comply with the requirements of sections 174, 252, etc., it is necessary for a private company, which becomes a public company by virtue of section 43A, to increase the number of its members and also its directors.

In respect of the various representations made to the Central Government that a large number of private companies which had technically become public companies on 28-3-61 under the provisions of section 43A (1) could not, for one reason or the other, reorganise their shareholdings before 28-3-61 so as to enable them to continue as private companies. The Government has taken an administrative decision that no proceedings would be launched against such of those companies as were able to reorganise their shareholdings before 31-12-61 at the latest. All those companies which were able to avail of this administrative concession would be deemed to have continued as private companies and no insistence will be placed on them by the Department to comply with the requirements of sub-sections (2) and (4) of section 43A. Where however for its own protection any such company applies for the approval of the Central Government under section 43A (4), it should first fulfil the obligations imposed on it under section 43A (2) and then only seek the Central Government's approval under sub-section (4).

Companies which have failed to reorganise their shareholdings by 31-12-1961 would be deemed to have become and continued as public limited companies on and from 28-3-61 and would become

liable to penal proceedings as prescribed in law for failure to comply with the provisions of sub-section (2) of section 43A as well as other provisions of the Act applicable to public limited companies.

Inter-Corporate Investments

Section 372 of the Companies Act, 1956 as amended by the Companies (Amendment) Act, 1960, seeks to regulate investments by a company in other bodies corporate, whether in the same group or outside the same group as the investing company, beyond certain prescribed limits. The provisions of this section are, however, not applicable to a private company which is not a subsidiary of a public company.

The amended section 372 provides that the board of directors of a company shall be entitled to invest in any shares or debentures of another body corporate upto 10% of the subscribed capital of the latter, provided: (a) The aggregate of such investments made in all other bodies corporate shall not exceed 30% of the subscribed capital of the investing company and (b) the aggregate of such investments made in all other bodies corporate in the same group as the investing company shall not exceed 20% of the subscribed capital of the investing company.

In computing, at any time, the percentages specified above, the aggregate of all the investments made by the investing company in other body or bodies corporate, whether before or after the commencement of the Amendment Act, upto that time, is required to be taken into account.

The limit of 30% is not, however, applicable to an investment company, i.e., a company whose whole or substantially the whole business is the acquisition of shares, stock, debentures or other securities. The prescribed limits are not also applicable to investments in "rights" shares offered in terms of clause (a) of sub-section (1) of section 81 of the Act, provided that when, at any time, the investing company intends to make any investments in shares other than 'rights' shares, then in computing, at that time, any of the aforesaid percentage limits, the existing investments, if any, made in 'rights' shares upto that time are required to be included in the aggregate of the investments of the company. The restrictions imposed by the section on investments in com-

panies outside the same group do not, however, apply to investments in debentures of companies outside the same group of the investing company.

The previous approval of the company in general meeting and of the Central Government is necessary before a company invests in the shares of another body corporate in excess of the limits prescribed in the section. As the Central Government will not accord *ex-post facto* approval to any investment attracting section 372 (4), any such investment made without the prior approval of the Government would attract the penal provisions of section 374.

If a company proposes to make investments in the shares of another company which will have the effect of making the latter company its subsidiary after such investment, the Central Government's prior approval will be required in terms of section 372 (4). Only such investments as are made *by a holding company in its subsidiary* after it became a holding company are saved by the provisions of clause (d) of sub-section (14) of section 372.

In calculating the aggregate of the investments made in all other bodies corporate, for the purpose of computing the percentages specified in sub-section (2) and the provisos thereto, the investments made by a company in its subsidiary or subsidiaries must also be taken into account.

For purposes of calculating the prescribed limit of 20% or 30% of the subscribed capital of the investing company, the actual cost of the investments (and not the nominal value of the shares to be purchased or subscribed) is to be taken into account; the limit of 10% of the subscribed capital of the "investee" company is, however, to be computed on the basis of the full nominal value of the shares of that company proposed to be purchased or subscribed.

In view of the specific provisions contained in sub-section (5) of section 372, the power of the board of directors to invest the funds of a company in the shares of another body corporate in pursuance of sub-section (2) of the said section cannot be delegated to any committee of directors, the managing director, the managing agents, Secretaries and Treasurers, the manager or any other person specified in the first proviso to section 292 (1).

As the provisions of the amended section have no retrospective effect, the investments made by a company prior to 28th

December, 1960, in accordance with the provisions of the Act obtaining at that time, would not require the approval of the Central Government under section 373 of the Act even if the percentage limits prescribed in section 372 (2) had been exceeded. Nor would a company be required to dispose of any of the said investments so as to conform to the said percentage limits. Such investments will, however, have to be taken into account for purposes of computing the aggregate of the investments as provided in sub-section (3) of section 372.

When a private company is converted into a public company or becomes a public company by virtue of the provisions of section 43A, the investments made by it prior to the date of its becoming a public company would not be hit by the provisions of either section 372 (4) or section 373, and it would not, therefore, be necessary for that company to dispose of any of the said investments so as to bring them down to the percentage limits prescribed in section 372 (2). Such investments will, however, have to be taken into account for purposes of computing the aggregate of the investments as provided in section 372 (3).

As companies dealing in shares, stocks, debentures and other securities have not been exempted from the operation of section 372, investments which are held by such companies as part of a stock-in-trade will be hit by the restrictive provisions of section 372. The limit of 30% applies to all investments by a company in the shares of any other body corporate, irrespective of whether such shares are held for short or long periods or as long-term investment or for sale or purchase. Investment companies, however, will not be subject to the 30% limit in view of the provisions of sub-section (13) of the said section.

A company seeking the Government's approval under section 372 (4) must specify in its application the name or names of the company or companies whose shares/debentures are proposed to be purchased or subscribed.

All the applications for Government's approval under section 372 (4) are required to be made in Form 34B prescribed by the Companies (Central Government's) General Rules & Forms (Amendment) Rules, 1961, accompanied by the treasury challan in token of the payment of the appropriate fee prescribed by the Companies (Fees on Applications) Rules, 1961. In considering the

applications received under this section, the following guiding principles have been formulated by the Government.

Although industrial and trading companies are not investment corporations and it is not their primary business to give financial accommodation to, or make investments in the shares and debentures of other companies, they may be allowed to make trade investments in other companies, viz., investments which are likely to create conditions conducive to the interest of the investing company, as well as to the other companies' more economic working and betterment of production. An example in point would be an investment by a sugar company in a company which produces sugar-cane with a view to supplying the sugar-cane to the sugar company.

A company may be allowed to make the investments only if it has adequate liquid resources for making the investments and if the depletion of the working capital which would result from the blocking up of the funds of the company in the form of investments would not adversely affect the company's own working.

A company which has resorted to borrowing for its own requirements or intends to finance its investment by borrowing, should not be permitted to make the investments, except in the case of trade-investments if the terms of borrowing are commensurate with the return expected both directly in terms of dividends and indirectly through creation of conditions conducive to the interests of the investing company.

Inter-company investments should not be permitted where there is a reasonable suspicion that they are prompted by a desire to gain control over the management of companies or are for speculative or for other *mala fide* purposes. Where, however, the proposed investment would make the other company a subsidiary of the investing company, the investment may be permitted provided that there is a reasonable functional relationship between the proposed subsidiary and its holding company or between it and the other subsidiaries of the holding company.

These investments are permitted provided they are regarded sound. The company in which the investment is made should be in a sound financial position and, in particular, the depreciation provisions made should be adequate. The financial structure of the company in which the investment is made, after taking into

account the proposed investment, should be a balanced one as otherwise the idle capital or heavy interest charges would act as an economic drag in the working of the company. The company in which investment is proposed should have earned profits and declared dividends in the past or should at least clearly be capable of making profits and declaring dividends within a reasonable period of time. The purchase price should be reasonable and neither too high nor too low, taking into account the net worth, prevailing market prices and future expectations of profitability. The proposed investment should provide an expected return on capital at least equal to the return on gilt-edged securities. Except in the case of trade investments, the shares or debentures proposed to be acquired should preferably be readily marketable. It may, however, be pointed out that each case is considered and disposed of by the Government on its own merits and in the light of all facts and circumstances.

CONTROL ON CAPITAL ISSUES

From 17th May, 1943, restrictions were imposed on the issue of capital by limited companies under Defence of India Rules for preventing the growth of mushroom companies and for obtaining a balanced utilisation of the resources of the country. Subsequently the control of capital issues has been continued under the Capital Issues (Continuation of Control) Act. Under this Act, it is provided that no limited company can issue share capital over Rs. 5,00,000, except in case of banking and insurance companies, without the previous consent of the Central Government. This exemption limit has now been increased to a share capital of Rs. 10 lakhs. The Government acts for this purpose through the Controller of Capital Issues.

Applications for the sanction of capital issues are examined by a committee of the Finance Ministry. In the case of banking companies, the Reserve Bank examines them, whereas issues by insurance companies are examined by the Superintendent of Insurance.

The Government's sanction depends on several considerations. The chief aim of control is to protect the public against the malpractices of unscrupulous company promoters and managing

agents. It helps the Government regulate the planned development of industry.

BONUS SHARES

Companies issue bonus shares by capitalising reserves. If the working capital of a company is in excess of its share capital, it is advisable to bring the latter in line with the working capital. This can be done in two ways. Firstly, a company may increase its share capital by issuing new shares and asking the shareholders to subscribe for them. Secondly, the company may pay for the new shares out of its reserves and distribute the shares so paid-up among the existing shareholders free, in proportion to their holding.

The place of bonus shares in company financing is important, as it encourages companies to plough profits into the business. The shareholders are satisfied as they sacrifice the payment of a high dividend in the expectation that their waiting will be rewarded later by the issue of bonus shares out of the reserves which are built up from profits.

The issue of bonus shares is subject to the consent of the Controller of Capital Issues and there is a high rate of taxation to the extent of 12.5 per cent on these issues. It is open to question whether the issue of bonus shares should be restrained by taxation, as the levy discourages the ploughing back of profits into the business.

Bonus shares can be issued by capitalising the share premium account of a company. If a company issues bonus shares by paying the share money out of the premium which the shareholders are obliged to pay for buying the shares of a company, especially at the time of a fresh issue, such bonus shares are also subject to the bonus shares tax.

Questions

1. What is the relationship of shareholders in a public limited company to the following bodies of persons and what is the effective power and control over:—
 - (a) The Board of Directors,
 - (b) The Managing Board of Directors,
 - (c) The firm of Managing Agents as found in India?

(B. Com., Calcutta, 1925).

2. What are the differences between Memorandum and Articles of Association of a Company? Mention main clauses of a Memorandum of Association. (B. Com., Cal., 1962).
3. Write out a typical notice (including an appropriate agenda) for a company's shareholders' annual general meeting. (B. Com., Cal., 1960).
4. Discuss how far in India generally the control of directors over the management is effective and the responsibility of the directors to shareholders is real. Refer briefly to the part played by the system of managing agency in the development of Indian joint-stock enterprise. (M.A. Com., Cal., 1958).
5. Discuss the merits and demerits of the system of having the business of a joint-stock company conducted by a firm of managing agents. (B. Com., Bombay, 1959).
6. Draft notices for the following giving the number of clear days' notice required in each case:—(a) statutory general meeting, (b) meeting for the purpose of increasing the capital, (c) general meeting for the purpose of winding up a company. (B. Com., Allahabad, 1960).
7. State the provisions of the Indian Companies Act relating to the Managing Agents. Do you support the steps recently taken by the Government of India regarding the transfer of the Managing Agency rights? (M.A., Calcutta, 1951).
8. What is an Annual Return? What are its contents? (M. Com., Agra, 1945).
9. What are the duties of a Company Secretary in connection with a meeting of directors? (M. Com., Agra, 1946).
10. Draft an agenda of a meeting of directors of about five items and then proceed to write minutes on same in proper form. (B. Com., Allahabad, 1959).
11. Discuss the powers and duties of the chairman of a meeting of the shareholders of a joint-stock company. What should be his qualification? (B. Com., Bombay, 1961).
12. Distinguish between a public and a private limited company. Point out the suitability of each type for various business activities. (B. Com., Burdwan, 1962).
13. Distinguish between a Partnership and a Limited Liability Company, carefully explaining the comparative advantages and disadvantages of each. (B. Com., Calcutta, 1943).
14. Draft an agenda of a meeting of the Board of Directors of a public limited company of about four items and then proceed to write Minutes on same in proper form. (B. Com., Agra, 1947).
15. State briefly the secretarial procedure of issuing company's shares, and draft the necessary resolution. (B. Com., Agra, 1947).
16. Explain fully the functions of Directors of Public Limited Companies and indicate their rights and responsibilities (B. Com., Cal. 1947).
17. Draw up a specimen Balance Sheet of a public-limited Banking Company or a private owned manufacturing concern and explain briefly the meaning of the principal heads therein. (B. Com., Cal. 1947).

18. What do you understand by Managing Agency? Discuss the merits and drawbacks of the Managing Agency system as it is in vogue in India. (B. Com., Cal. 1949).
19. Draw up a Notice for holding an Annual General Meeting of the shareholders of a Public Limited company declaring a dividend, noting carefully the business to be conducted and other essentials for such a notice and also make out specimen "Proxy Form" to be enclosed therewith. (B. Com., Cal. 1950).
20. How does the Balance-sheet of a Company enable one to judge its soundness or otherwise? (B. Com., Cal. 1952).
21. Discuss the merits and defects of the managing agency system of organisation and control of a Joint Stock Company. (B. Com., Cal. 1953).
22. Draft the proceedings of the Annual General Meeting of X, Y, Z Co. Ltd., for the year ending on the 31st December, 1954 and held on the 3rd March, 1955. Assume that the meeting dealt with only the routine items as are usually dealt with at these meetings. Where amounts are to be mentioned use imaginary figures. (B. Com., Cal. 1955).
23. "The Managing Agency system has outlived its utility in India." Examine critically. (B. Com., Cal. 1956).
24. What are the provisions in the Companies Act 1956 regarding the Managing Agents? Also mention the striking changes made by the new Act as compared to the old Act. (B. Com., Cal. 1958).
25. The Companies Act, 1956 requires filing of certain statements every year by a Public Limited Company with the Registrar of Companies. What are those statements? Also mention the nature of information those statements should contain. (B. Com., Cal. 1959).
26. Do you think that the Companies Act, 1956 safeguards the interests of the share-holders more than the old Act? If so, mention any six points in support of your answer. (B. Com., Cal. 1959).

CHAPTER V

LIQUIDATION

Liquidation

A company can extinguish its existence only by a legal procedure as laid down in the Companies Act. The aim is to safeguard the interest of its creditors and members. In the event of a company being wound up, every present and past member is liable to contribute to the assets of the company to an amount adequate for payment of its debts and liabilities and the costs and charges of winding up. The liability is limited to the amount unpaid on shares in the case of members of a limited company. No past member is liable for more than one year after he has ceased to be a member nor for debts contracted after he ceases to be a member.

Companies are not wound up only because they are bankrupt. A solvent company may be dissolved and wound up if the object for which the company is formed no longer exists or it has been achieved or the shareholders decide to wind up the company with a view to distributing its assets among themselves. Quite apart from the right of members to apply for winding up it is open to every creditor of the company to move the appropriate Court with a petition and obtain an winding up order.

Kinds of Liquidation

The winding up of a company can be of three kinds. It may be winding up by a Court or the winding up may be voluntary or subject to the supervision of the Court.

The Court may order winding up of a company if (i) the company has, by special resolution decides that it may be wound up by the Court, (ii) if default is made in delivering the statutory report to the Registrar or in holding the statutory meeting, (iii) if the company does not commence business within a year from its incorporation, or suspends its business for a whole year, (iv) if the number of members is reduced, in case of a public company, below 7 or 2 in the case of a private company, (v) if the company is unable to pay its debts, or (vi) if the Court is of opinion that it is just equitable to wind up the company.

The court is vested with wide powers in the event of winding up. Soon after the passing of the winding up order it is open to the court to settle the list of contributories or dispense with such a list.

Upon the commencement of winding up a liquidator is appointed. It is the duty of the liquidator to realise all assets of the company. Upon realisation he is required to pay the debts of the company to its creditors and to distribute the surplus, if any, to the shareholders of a company. The liquidator must act in an honest and impartial manner. He can be removed from office as liquidator by the court.

In the Companies Act an Official Liquidator must be attached to a High Court. He is appointed by the Central Government. As soon as the winding up petition is presented before the court, the latter has powers to appoint the Official Liquidator as the provisional liquidator. The provisional liquidator enjoys the same powers as the Official Liquidator.

A liquidator must keep proper books for entering minutes, proceedings of meetings and proper books of accounts. Such accounts for all receipts and payments should be presented not less than twice in each year to the court. A general control of the Central Government exists over the work of liquidators. The Central Government may enquire into any complaint against the liquidators and take suitable action.

A company may be wound up voluntarily (1) when the period fixed for the duration of the company as mentioned in its Articles of Association has expired, or (2) the event on the happening of which the Articles of Association provide that the company has to be dissolved has occurred and (3) the company resolves by a special resolution to wind up voluntarily. Under the Companies Act voluntary winding up can either be a members' voluntary winding up or a creditors' winding up. Elaborate legislative provisions have been made for such winding up.

Questions

1. Define Insolvency. What is the procedure in insolvency?
2. Explain fully the different modes of winding up of the affairs of a company.
3. Under what circumstances can a Court send a company in liquidation? Can the Registrar of Joint-Stock Companies strike a company off the Register, and when?
4. Describe the position, and define the powers of a liquidator.

CHAPTER VI

OFFICE ORGANISATION AND MANAGEMENT

Lay-Out

In making the lay-out of an office, including construction and situation, proper care and consideration should be paid for cleanliness, accommodation, keeping scope for extension if required, lighting and ventilation. Various departments should be so situated and interlinked that a manager can supervise efficiently. and communication among departments may be quick and easy.

Various Departments

In an office there are various departments to tackle complexities of modern business life. Departments are planned according to individual and special needs of a business. Usually the following important departments in a business office are found.

Cash Department

The cash department works under the supervision of a head cashier, who maintains the general cash book. He receives cash, issues receipts in perforated slips, signed either by him or by the departmental head or the manager. He later enters the amount in the cash book.

A firm makes payments by means of crossed cheques, which are prepared in the Cash Department, and signed by the authorised departmental head. Small and contingent payments are made in cash. No payment is made on any bill, unless it is certified and passed for payment by the authorised officer of the company. Payees must give receipts which are called "Voucher Guards" and are filed.

Petty Cash

Petty payments such as postage, coolie hire, cartage, etc. are made by a clerk, who is called a petty cashier. He works under

a head cashier. The petty cash is kept under the "*Imprest system of Petty Cash*". The head cashier advances to the petty cashier a round amount of Rs. 100; the petty cashier makes petty payments, totalling Rs. 85 in a week; at the week-end he gives his account to his head, who makes an entry in the cash book on the credit side, debiting such heads of accounts, and hands over to the petty cashier again an amount of Rs. 85, adding to a total of Rs. 100.

Intelligence and Collection Departments

In business credit is given to customers, and success depends upon ability to avoid bad debts. It is necessary to obtain particulars about clients. A firm should maintain an Intelligence Department, which obtains particulars about a client, examines his financial position and status. In the case of the existing clientele the department should keep a watch. The department records its opinion about a client in a book, called the "*Opinion Book*". The department gathers information from balance sheets, banks, bazar gossips, private individuals, etc.

The Collection Department collects debts due to the firm. It works in close collaboration with the Intelligence Department. It should act promptly, otherwise bad debts will accrue. Demand for money should be made regularly and mild reminders should be given. Names, addresses of persons, and amounts paid by them should be recorded on cards. In the case of the hire purchase system, an instalment book and a ledger should be kept.

Purchase and Sales Departments

The Purchase Department should buy goods at the cheapest price. It must check invoices sent for commodities bought. A purchase journal records all purchases.

The Sales Department sells goods at the best prices. It undertakes advertising campaigns.

Accounts Department

The Accounts Department is very important. It constitutes the nerve-centre of a business organisation. It maintains records in respect of expenses and receipts. It is in close touch with every

other department, exploring new avenues of economies. It helps a business man know whether he is making profits or losses. It enables him to plan his action. The Accounts Department is an indispensable guide for an entrepreneur.

MECHANICAL DEVICES IN OFFICE

General

A business office uses mechanical devices for doing work expeditiously. Correspondence, circular letters, copying, etc. are done mechanically.

Telephone

An office maintains a telephone for quick communication of messages. In the same office a number of lines and receivers are installed, and inter-communication is arranged by means of an exchange, built in the office. When telephone messages are transmitted over long distances, it is called a "*Trunk Call*".

Typewriter

A typewriter is commonly used. It is used efficiently, intelligently and carefully.

Carbon copying on the typewriter helps keep a copy of a letter. It is done by inserting a carbon sheet and a blank sheet in position behind a letter as it is typed, and a carbon copy of a letter is made.

Dictaphone and Ediphone

The use of a dictaphone or ediphone removes the need for dictating notes to a short-hand typist. It records notes automatically. It is worked by a phonograph, driven by a motor which is set in motion, immediately after the mouthpiece is removed from its holder. Later a lever is moved into the "dictate" position, and as words are uttered they are transcribed on a revolving wax cylinder. Subsequently, the typist who wants to listen to what has been said, moves the lever backwards to get the "listen" position, and he takes down words already recorded.

COPYING AND MULTIPLYING PROCESSES

Printing

Printing may be used for multiplying copying processes. Printed copies are not popular as they are expensive, and they are not suited to sales letters, circulars, etc. A customer who gets a printed letter does not pay much attention, thinking that he is one of the many who have got it. So a business man avoids printed copies, and tries to stamp each copy of a sales letter with marks of special attention given to a customer. It can be done so by mechanical devices.

Hectograph

A hectograph comprises of a metal tray, a tin of gelatine and a bottle of hectograph ink. After melting the gelatine by means of hot water, it is allowed to cool off into a solid mass. The letter is written with hectograph ink upon a non-blotted paper, placed with face downwards on the gelatine, and pressed. This gelatine absorbs ink; the original letter is placed on the gelatine and pressed, and a facsimile copy is obtained. Although it is possible to get 50 to 60 copies, the hectograph is an old method, and is not commonly practised.

Mimeograph

A mimeograph machine consists of two parts, namely, (a) the writing frame, and (b) the printing frame. The important thing of the machine is the stencil, hand-made or typed. When a stencil is written by hand, a sheet of wax paper is stretched over the writing frame, and the letter is written upon the wax paper by means of a metal stylus. The latter cuts through and expels the wax. If ink is applied to surface, it percolates through places cut by the pen, and forms words on the paper placed under it. In the case of trying the stencil the ribbon is removed from the machine. The oil sheet should be put in front of the wax sheet, and the perforating silk sheet is placed behind the wax sheet. On the back of the silk sheet there must be a backing sheet. Fold the sides and the top of the tissue and place the sheets over the backing sheet, and put the entire thing into the machine and type the original matter, which is to be reproduced.

After obtaining the stencil, it is spread over and tied to the printing frame of the machine. A sheet of paper is placed under it, the frame holding the stencil is brought upon the surface of the paper, resting upon the bed of the machine. If an inked roller is placed over the surface of the stencil and the frame is raised, an exact facsimile will be made on the paper. The sheet is then removed, a fresh one may be inserted. So the process may be repeated for obtaining many copies.

The mimeograph process of copying is popular and effective.

Rotary Multiplier

In a *Rotary Multiplier* machine, a stencil is prepared and placed on a "linen ink-pad" spread upon a bored cylinder, held together by a metal framework. The pad is supplied automatically with ink by means of a rubber roller, placed in an ink reservoir, which is suspended between the sides of the metal framework. Usually a level is used for bringing the roller into direct contact with the cylinder to get the ink. The handle of the cylinder is then rotated, and as the sheet of paper is fed into the machine it is gripped by a rubber roller, pressed against the stencil, carried round the revolving cylinder, and returned printed from the other side of the machine.

Multigraph

Multigraph is a small printing machine in which the types are set by hand. The machine may accelerate the process of copying, if it is driven by motor, automatically fed, and a cyclo-meter is attached to it. The machine is used for duplicating facsimile copies of typed letters.

Lithography and Printing

Lithography and printing are popular processes of multiplying copies and printing is done from stone, forms, or types.

Roneo Letter Copier

A Roneo Letter Copies machine is worked by hand or motor. The letters are placed between rollers and they are copied on a roll of paper fed through the machine, and they are delivered

on the other side. The copying paper used is selected carefully for making facsimiles of the original letter. The latter should be written in copying ink, or it is typed with a copying ribbon.

Photostat

A photostat machine is used for the photographic reproduction of letters, drafts, agreements, etc. It consists of a camera with a magazine for the purpose of holding a roll of sensitised paper, and it has compartments for developing and fixing. The subject is photographed through lens with prism attached. The photographic copies are made, and taken out.

Addressing Machines

Machines and mechanical devices are used for addressing envelopes, filing cards, dividend warrants, bonus cards, etc. For using the machine a stencil is prepared on a metal for obtaining the print. The *Roneo* and the *Addressograph* are well-known addressing machines.

An office may use other forms of mechanical appliances. For instance, *Comptometer* is useful for calculation, addition, checking invoices, etc.; *Burroughs Adding Machine* is utilised for listing and adding; *Hollerith Punching Machines* are used for punching cards instead of writing records, and they help analysis and tabulation to be made easily and precisely. Numbering machines are used for impressing serial numbers on papers.

Telewriter and *Teleprinter* are used for transmission of messages, written or typed by telephone or telegraph lines. The movement of a key, or a pen at one end of the line reproduces a corresponding movement at the other end, and the corresponding character is reproduced. In the case of a telewriter, a pen is used for writing the message on a visible pad. They are automatically reproduced on a pad which is situated at the other end of the line. A teleprinter transmits messages either by direct keyboard operation or by automatic type operation. Messages are first perforated on a paper tape by means of a keyboard perforator, and the tape is fed through an auto-transmitter. If the message is to be relayed, such a process is used. In a teleprinter messages are received in the forms of (a) tape messages in Roman letters, (b) page printing, or (c) perforated tape messages.

The teleprinter is a device for communicating prices and information.

Office Electronics

There is a wide variety of equipment manufactured by a number of companies for doing office work. A long evolution of refinement in mechanical and electro-mechanical techniques has brought such equipment to a high degree of perfection. If put to optimum use, the equipment can produce a high level of office productivity. The improvement is expected to continue, as there is scope for further technological improvement.

Electronics combine super-speed and integration. For business and industrial concerns having heavy paper work, the system promises many near-term advantages.

The combination of speed and integration is symbolised by the electronic computer. It represents high-speed integrated devices for one of the three major categories of business data processing operations—computation and data manipulation. It works if information is collected, organised, and translated into such a form that a computer can handle.

In a punched card system, jobs include key punching or making cards for marks sensing. In at least one electronic system, the portion of the operation requires the use of a typewriter for recording information on magnetic tapes. It is the 'make ready' tasks which require a substantial proportion of labour.

The Burroughs Sensimatic-to-Tape equipment consists of two components, namely, a standard Sensimatic Accounting Machine and a cable connected type punching device which can be located up to 300 feet away without using a power booster. Automatically, as a by-product of normal accounting operation, a coded version of the transaction is created in the form of a punched paper tape.

FILING AND INDEXING

General

A business house must maintain an up-to-date and efficient system for keeping documents, records and other papers, so that ready references are easily available. It is possible if a business

practises filing and indexing records, documents, etc. A good office maintains an efficient, simple and comprehensive system of filing and indexing. Disorganised and haphazard methods of maintaining papers result in chaos and confusion. The system of filing has improved. Notable filing systems include (1) *The Register system*. In this system papers are arranged on *metal holders or pasted in guard books* bound in chronological order. The system was abandoned as it proved complicated and disadvantageous. (2) *The Pigeon-hole system* denotes keeping papers in several pigeon-holes in alphabetical order. It is not popular as it takes a big space. The pigeon-hole system requires docketing. Before papers are put in pigeon-holes, they are docketed for easy reference. On top of each paper a short summary of contents, giving names, addresses, and purposes are given. It therefore involves extra-work and costs. (3) To maintain papers in *increasing alphabetical cases* has utility for temporary purposes only. (4) Letters are punched with two holes to fit on pikes, and they are clamped in files. In such a system files become bulky. If a letter is to be removed, all letters have to be shifted. It involves inconvenience and causes delay. (5) Box files are good for sorting, but not for permanent storage. Box files have spring arrangement for holding contents, which are kept loose. (6) *In flat filing*, folders are placed flat in drawers. Although the system is commonly practised it is inconvenient, especially when holders become old. (7) The efficient system is the *vertical system of filing*. It is done by means of folders, consisting of a hard but elastic substance folded with one edge projecting above another. A docket of the paper filed is made on the projecting edge, giving a short summary of contents. Folders are arranged vertically one behind another in a drawer, which can be divided into various sections by inserting "Guide" cards. If a drawer is opened, the projecting edges of folders are seen at a glance, and a folder can be removed easily.

Docketing

In the docketing system several pigeon-holes are provided. Letters are folded into a uniform size, and on the outside of each letter is written a short description of contents, known as a docket, containing the name, brief address, date, and subject-matter of a letter. After making a docket of each letter, correspondences

are filed in proper pigeon-holes. It is a cumbersome and expensive system of filing.

Indexing

A business firm despatches a number of letters, and for obtaining an easy reference, letters and documents are indexed. Indexing can be done in a number of ways.

Alphabetical List and Cross-Reference

An alphabetical list is kept at the beginning of a book, and the name of a correspondent together with the number of the page containing a copy of the letter sent to him is recorded. If more than one letter is written to the same correspondent, and a reference is to be made to any particular letter, repeated references to the index are made involving loss of time. For avoiding inconvenience, *cross reference* is devised. A copy of a letter in such cases is cross-referenced by entries in coloured pencil on page numbers to the letters of the same correspondent preceding and following the letter under reference. From the pencil entries on top of each copy, numbers of pages of two additional letters of the same correspondent are found.

Ordinary Index

The ordinary index consists of pages, each headed with a letter of the alphabet. Names to be indexed are recorded in a list on the page indicated by the initial letter, the folio being shown outside against names. Ordinary index may be (a) fixed when bound in a book, (b) loose in separate sheets, (c) extending when bound in a book so as to open out themselves outside the book itself and (d) self-indexing when the leaves are so cut out as to make the letter of the alphabet visible from outside.

Vowel Index

The vowel index is an extension of the ordinary index system in which each page is divided into six columns, namely, A, E, I, O, U, and Y. Names are entered on the page having the correct initial letter in the column, indicated by the first vowel coming after the initial letter of the surname.

Card Index

In card index a card is allotted to each correspondent, and in it are entered details about him. The cards are arranged in card drawers either alphabetically or numerically. Guide cards are often made to project above the cards. It is easy and quick to trace the correspondence which is required by following particulars noted on the card. The card index system is an improved method upon other systems of indexing.

Card Folio

In card folio index cards are filed in a loose-leaf book having many cards on a page, and they are held by lacings which fit over the four corners of cards in such a way that the letter can be removed from the folio by bending slightly.

Précis Writing

Précis writing means making the synopsis of a letter or document. It contains a summary in a few words, conveying the meaning clearly.

CORRESPONDENCE

General

In business, correspondence has an important place. A customer is often attended by means of a letter. An order is canvassed by a sales letter.

For approaching a person by means of a letter, it is necessary to create a good impression. Impression once created is very difficult to remove. There are many instances how a business is lost by a careless mistake. A letter should be so drafted as to stamp on it the personality of the writer. In drafting a letter common faults are to be avoided.

Common Defects and Their Remedies

1. A letter should not be drafted in a *dull stereotyped manner*. A touch of novelty makes an interesting reading and creates a favourable impression.

2. It should be *neatly and legibly written*. If it is typed the typist must be careful to get it *typed in a very decent way* without any mistake.

3. Proper *punctuation* and *paragraphing* ought to be made.

4. A letter should not be vague or ambiguous. The subject-matter should be put in a *clear* and *concise* manner, and if a letter is written on any subject once dealt with, it should bear a reference so that the reader may spot out the subject-matter. Otherwise, it causes irritation, loss of time and energy.

5. A letter should be couched in a *mild* and *courteous* language. *Tactlessness* is regarded as a great fault in business correspondence. It should be written in a persuasive language.

6. It should be written in good and correct English.

7. It should be properly stamped.

8. A letter must be properly addressed, mentioning the proper rank of a person, if there be any.

9. The size of an envelope should be such that a letter may not be folded more than twice.

General Principles of Construction

Ideas are conveyed in a correspondence, and a writer should assemble facts and arrange them in a suitable manner. A letter should be concise and not verbose. The language to be used is governed by the nature of communication and by the status of the addressee. Routine usually needs a 'form letter', while a negotiation letter requires careful explanation and description. Details are important in an instruction letter. Sales letters should be attractive, persuasive and they should contain psychological appeal. In dealing with letters of complaint, it is necessary to appreciate the point of view of the complainant. They require judgment and tact. Policy letters require foresight and experience. A writer should bear in mind the rank, education and relative position of the addressee. Other things apart, a letter should be written in a forceful language. It should have freshness and spontaneity of style.

How to Begin

Beginning is usually formal, e.g., (a) we have pleasure in acknowledging the receipt of your letter, dated.....or reference

no.....(b) we beg to acknowledge the receipt of your letter of the 1st instant, (c) with reference to your letter, dated.....(d) replying to your letter of the 7th instant, (e) referring to your letter of 18th instant, and so on.

How to End

The ending is made with "yours faithfully", though a more polite ending is sometimes done in the following way:...

I remain, or I am,
We remain, or We are,

and at the end the words "yours respectfully" or "yours obediently" are added. In many cases, preceding this type of ending, the following may be found:...(a) awaiting the favour of your most esteemed orders, (b) assuring you of our prompt attention, (c) assuring you of our best service and so on. Thus the ending becomes as follows:

Assuring you of our best service,
We remain,
Yours faithfully,

Addressing

An address should be properly worded, giving title and rank, and it ought to be legibly written or typed. Generally 'Mr.' is used in addressing, though the use of "Esquire", or "Esq.", is conventional. "Messrs." is the plural of "Mr.", and should be used if the name of the firm or of the company is a personal one, for instance, "Messrs. James Finlay & Co., Ltd." "Messrs." should never be used with impersonal names, *e.g.*, "The Pioneers Stores, Ltd.," the name itself is sufficient. Even the use of the word "Messrs." is incorrect in the case of a name, which begins with a title, *e.g.*, "Sir Hukumchand & Co". The name alone is quite correct in such a case. "*Mesdames*" is used in place of "Messrs." if partners of a firm are ladies.

Signing Correspondence

In a proprietary business a letter is usually signed by the proprietor, whereas a partner signs a letter in the case of a firm.

In the latter the signature is given under the firm's name, written or typed.

If business correspondence is signed by an officer of a firm, who has been authorised to sign on behalf of the firm, the firm's name is prefixed in the signature by the word "*Per-pro*", or "P.P"., which is the contraction of the word "*per procuracionem*", meaning "under the authority of". If a clerk signs a letter, without having any such authority for signing on behalf of a firm, the firm's name is prefixed by the word "*per*", "P", or "for" in the signature.

THE HEADING

Points to know in Business Letters

Firms may have printed letter papers. On top of the sheet of paper in which a letter is written, usually some information is found. The name of the firm, its partners, the nature of business, the telephone number, the telegraphic address, etc. are given. On the right-hand side of the sheet is printed the address and under it a space is left to insert date. If the letter paper is not printed, it should be written up containing such information. Dates in a business letter should not be put as 17-2-62; they should be put as 17th February, 1962.

THE REFERENCE

A letter in business contains a reference number in the following way—(a) In reply please quote.....(b) our reference No., (c) reference No. etc. It is generally given on top of a letter.

THE INSIDE ADDRESS

Below the printed or written heading the full name and address of a person to whom the letter is addressed should be written clearly on the left-hand side of the paper. It amounts to the full address, given on the outside of the envelope.

Specimen Correspondence

A retailer is complaining to a manufacturer in the following letter:—

(1)

2, Russa Road,
Calcutta, 2nd May, 1962.

Dear Sir,

We beg to bring to your notice that five tins of biscuits delivered to us about a week ago were not up to specification, and we have, therefore, debited your account with the price for those five tins which we are holding for your inspection and disposal.

Yours faithfully,
Pioneers Stores, Ltd.

In reply, the manager of the manufacturer's factory writes:—

(2)

Howrah, 5th May, 1962.

In reply to your letter dated 2nd May, 1962, we regret we cannot agree to your proposal. We consigned to you forty tins of biscuits about a week ago, produced in the same place and with equal care.

Yours faithfully,
S. N. Roy,

Both letters are defective—(1) They lack in precise details of goods complained against, (2) and they are tactless and rude.

A new factory manager comes in, and replies to the same complaint in the following letter:—

(3)

Howrah, 4th July, 1962.

We are sorry to hear that a portion of goods delivered to you was not up to your expectation. We are investigating the matter.

Meanwhile, will you kindly let us know the numbers of tins against which you are complaining? It will also help us if you send us a few samples of the biscuits, contained in any of the tins.

After hearing from you, we shall send Mr. Bose, our representative to you, and he will be able to settle up the matter to our mutual advantage.

Yours faithfully,
P. K. Bose.

The third letter is politely drafted ; it does not accept complaints of the retailer but it deals with the matter in a businesslike way.

Ordering Goods

In ordering goods, special care and attention should be paid so that a letter contains full information about goods ordered, the price, the person to whom goods should be sent, and any other instruction which may be required.

It is a good practice to acknowledge every order, even if commodities are despatched immediately. An acknowledgment keeps a customer informed.

(4)

20, Red Road,
Calcutta, 25th May, 1962.

Messrs. Bose & Co.,
Johnson Road,
Agra.

Dear Sirs, ●

Please purchase for us 10,000 sq. feet of gravels, washed and cleaned at a price not exceeding Rs. 30 per sq. foot. Kindly try to secure the best quality possible.

Should there be a slight difference in the price between the limit we have given and the current market quotations, we authorise you to purchase.

Yours faithfully,
Dutt & Sons, Ltd.

Letter of Introduction

A letter of introduction should be given carefully. It is not necessary to incorporate any word of commendation in such a letter, as it is in itself a recommendation. A businessman will consider the letter itself sufficient for doing business.

(5)

5, Dalhousie Square,
Calcutta, 15th June, 1962.

Guin Bros. Ltd.
9, Harrison Road,
Calcutta.

Dear Sirs,

We have been doing business with Messrs. Guha Bros., Ltd. since 1960, and we have always found them honest and straightforward.

Yours faithfully,
Ghosh Bros., Ltd.

Letter of Application

A letter of application should be written carefully. It should be concise, accurate and exhaustive. It should be written frankly without either underrating or overestimating the applicant's qualifications.

(6)

25, Clive Street,
Calcutta, 1st July, 1962.

Radio Company, Ltd.,
2, Dalhousie Square,
Calcutta.

Dear Sirs,

I beg to apply for the post of a clerk in your office.

I matriculated in 1942 from the Calcutta University, and I was placed in the first division. I read at the Hare School in Calcutta up to the Matriculation Class.

I belong to a respectable family of Bengal. I am now twenty-four years old.

Yours faithfully,
S. C. Bose.

Letter of Recommendation

A recommendation should be carefully worded because it is likely to carry weight with the person who will act upon it. If an undesirable person is commended in a letter of recommendation, the letter will discredit the writer.

(7)

22, Canning Street,
Calcutta, 2nd June, 1962.

Mr. Satish Chandra Bose was my student in the B. Com. Class from 1938-40. He graduated from the University of Calcutta in 1940 with distinction. He is intelligent, industrious, and honest. His conduct in the class has always been quite satisfactory.

S. B. Dhar.

Inward Correspondence

Usually the chief of an office opens letters received in a small office after delivery, but it is not possible to do so in a big office. In the latter, clerks are placed in charge of opening correspondence, and they sort them for different departments, except those which are marked "private" or "confidential". The latter are sent directly to the chief or his authorised assistant.

Letters Received Book

Business houses keep a Letters Received Book in which are recorded the receipts of all letters, postcards, telegrams, etc., with particulars of dates of receipt and a docket of each letter is made. Such a procedure ensures that every letter is properly attended. If a letter is mislaid, it can be detected from such a book.

Outward Correspondence

A business house keeps on record a copy of each letter which is sent out. As it is not possible to copy each letter by hand in a

big mercantile firm, many mechanical devices of copying have been adopted. Among them (a) Press Copying, (b) Carbon Copying, and (c) Rotary Copying processes are popular. Such mechanical devices ensure exact copies, save time and trouble. By keeping a record of inward and outward correspondences, it is possible for business houses to keep on record copies of all transactions, and easy references can be made if required.

For quick and easy reference, it is necessary to have proper filing and indexing.

Telegrams

Business firms use telegrams frequently. As they are expensive, they should be sent in a concise form.

Codes

For reducing expenses, telegrams and cables are sent in *code language*. A *code language* consists of (i) artificial words, e.g., combination of letters, having the appearance of words, or (ii) real words, not forming intelligible phrases. For obtaining cheap rates, no code word should exceed five letters.

Cypher Language

Cypher language consists of groups of figures or letters, having a secret meaning. It is charged at the rate of five characters per word, but a person is not allowed to use letter cypher and figure in the same expression. Cypher telegram maintains secrecy, and it is therefore not frequently allowed.

Telegram or Cable Codes

Code books are prepared having distinctive words or letter combinations for representing employed business phrases. Amongst code books are A B C, Bentley's, Marconi's, Western Union, etc. Firms indicate in their stationeries the code which they use. Sometimes firms make their own private codes

Code used—A B C (7th Edition, 1936).

DILONG=c.i.f. Buenos Aires.

IJGAK=At what price can you offer shipment next and following month?

Questions

1. Give a description of any modern office with which you are acquainted. Enumerate the most useful time-saving devices of the modern office.
(B. Com., Cal., 1959).
2. Describe three distinct private systems and explain the relative advantages of Plain Language, Code and Cypher Telegrams.
(B. Com., Cal., 1960).
3. Set forth clearly your views on the function and organisation of the Credit Department of a big mercantile house. (B. Com., Cal., 1946).
4. State generally the kind of organisation you would have if you were in charge of either export and import business or an industrial concern.
(B. Com., Cal., 1951).
5. You are carrying on an extensive business with branches in several countries and head office in Calcutta. Discuss carefully the system you should adopt to meet the situation in such a case. (B. Com., Cal., 1958).
6. As manager, what are the different departments you would expect to find in a newspaper printing and publishing company and how would you control them?
(B. Com., Cal., 1961).
7. You have been appointed by a large business house and you find it impossible to go into detailed working of each department. What methods would you adopt to keep yourself acquainted with the affairs of each department?
(B. Com., Cal., 1949).
8. Mention at least five of the labour-saving devices used in a modern office, and explain the function of each. (B. Com., Cal., 1946).
9. Mention and describe four labour-saving devices in a modern office.
(B. Com., Cal., 1941).
10. What are the salient points in the efficient organisation of the purchasing department of a trading firm? (B. Com., Bombay, 1959).
11. Examine the principles underlying the office organisation of wholesale trading firms.
(B. Com., Bombay, 1957).
12. Describe the part played by the Credit Intelligence Department in a big modern business.
(B. Com., Bombay, 1954).
13. Explain in detail a good filing system. (B. Com., Lucknow, 1960).
14. Describe the leading systems of filing and indexing of correspondence, and what system would be the best suited to the requirements of an establishment having correspondents all over the world, and hundreds of letters received every week.
(B. Com., Bombay, 1949).
15. What is Press Copying? What are its advantages and disadvantages?
(U. E. I., 1946).
16. A firm desires to send about 100 circular letters in good business style to its customers. Explain the method of duplicating that you would consider best for the purpose.
(B. Com., Lucknow, 1948).
17. Name and describe one of the best known telegraph code systems, and describe the difference between a code and a cypher.
(B. Com., Lucknow, 1959).

18. State the advantages of Telegram Codes in the mercantile world and describe the principles on which you would proceed to prepare a private code for the use of a firm of merchants who import and export goods from and to foreign countries. (B. Com., Bombay, 1961).
19. Describe the vertical system of filing correspondence. (B. Com., Allahabad, 1960).
20. What do you understand by docketing? (U. E. I.).
21. Describe briefly the system of filing you consider suitable for a merchant office and discuss the advantages and disadvantages of each. (B. Com., Cal., 1956).
22. You are in charge of a business house with a large number of correspondents suited in Great Britain, France, Germany, Canada, and Japan besides India. What system of filing and indexing correspondence would you introduce with a view to keeping the organisation most efficient? Describe the working of the system in detail. (B. Com., Cal., 1952).
23. Describe the advantages of card indexing system. (B. Com., Cal., 1950).
24. Explain what you mean by indexing a letter and writing the precis of correspondence extending over several letters.

Index the following letter in proper form:—

48, Merton Road,
Wimbledon, S.W.
1st November, 1960.

The World's News Offices,
London, W. C.

Dear Sirs,

With reference to your advertisements in The World's News, offering for sale a Minervette Motor car, 5 h.p. two seater, which has only been used for four months, I should be glad if you would make an appointment with me to view the car, and if the result be satisfactory, to make arrangements for the trial run. Should the car be in good condition I should be prepared to make you an offer of, say, £80; £40 cash down and the other £40 at the end of the three months.

Trusting you will reply to this at your earliest convenience,

Yours faithfully,
Walter H. Goodman.
(B. Com., Cal., 1961).

25. Draw up a letter to a customer who has written complaining to you of the late delivery of goods ordered. (B. Com., Cal., 1946).
26. Draw up a well ordered letter for these notes inserting names and addresses: Letter knowledge—samples and prices forwarded—many others in stock—prices for small quantities—reduction for larger amount—every effort to please. (B. Com., Cal., 1947).

27. Write out clearly from the notes below the reply to the following letter:

14, Charlton Road, Senderstead,
10 August, 1950.

Dear Sir,

As I see from an advertisement in one of the daily papers that you have a drapery business for sale in Kent, I shall be much obliged if you will favour me with particulars of the same.

Yours faithfully,
Robert Williams.

To Mr. G. Mint, Auctioneer,

8, Morgate Street, London, E.C.

Notes for Reply:—The business comprises of a Grovery, Drapery and Outfitters' business situated at Mainstone. Taking last year £63,500 roughly. Has been established 100 years and in same hand for last 20 years. Premises comprise of: 3 shops all adjoining, 7 rooms, nice yard, garden stabling and storehouse. Price including all fixtures, house and van and stock £950. About £400 of purchase money could remain. Will bear investigation. (B. Com., Cal., 1951).

28. Write a letter to your consignor regarding superior quality of goods supplied—the low turnover—hence, requesting a higher commission rate on future consignments. (B. Com., Cal., 1956).

29. Complaints have been received by a firm of Calcutta Manufacturers that a retailer in the country is selling their manufactured products below the minimum retail prices.

Draft a suitable letter containing his reply refuting the charges generally and explaining why in a very few cases he had been compelled to sell below the minimum retail prices under very special circumstances. (Letter should be completed in all details.) (B. Com., Cal., 1959).

30. Prepare a precis of the following correspondence.

First Letter

High Street,
Kingston, June 2.

Messrs. A. B. & Co.,
Leadenhall Street, London.

Dear Sirs,

I have been recommended to you by my friend, Mr. Jones, White Lion Street, Exeter, who is a client of yours.

Will you please buy for me £400 Canada 4% Bonds as soon as they are ex-dividend, and on receiving contract, I shall forward cheque for the amount.

Mr. Jones tells me that you charge him only half commission and I shall be glad if you can place me also on the same footing.

Yours truly,
C. Chambers.

Second Letter

Leadenhall Street,
London,
June 4, 1960.

Mr. C. Chambers,
High Street, Kingston.

Dear Sir,

We are duly in receipt of yours of the 2nd instant and are obliged to Mr. Jones for mentioning our name to you. Any orders with which you may favour us shall receive our best attention, and we shall, as in Mr. Jones' case, charge you half commission only.

We note your instructions to purchase £400 Canada 4% Bonds, ex-dividend; they will be thus quoted on the 6th instant, when we shall carry out your order and forward your contract.

Yours faithfully,
A. B. & Co.

Third Letter

Leadenhall Street,
London,
June 6, 1960.

Mr. C. Chambers,
High Street, Kingston.

Dear Sir,

Enclosed we send you contract for purchase of £400 Canada 4% Bonds, ex-dividend, as instructed. In sending cheque for the amount, kindly instruct us whether, when the Bonds are to be delivered, we are to forward them to you by registered post, whether you will call for them, or otherwise.

Yours faithfully,
A. B. & Co.

Fourth Letter

High Street,
Kingston,
June 8, 1960.

Messrs. A. B. & Co.,
Leadenhall Street, London.

Dear Sirs,

I have received yours of the 6th, enclosing contract, for which I send you cheque herewith.

Please return the contract receipt, and hand over the Bonds, when delivered, to my bankers, Messrs. Brown & Co., of Cornhill, advising me of your having done so.

Yours faithfully,
C. Chambers.

Fifth Letter

From

A. B. & Co.,
Leadenhall Street,
London, E.C.

To

Mr. C. Chambers,
High Street, Kingston.

Dear Sir,

In accordance with instructions in yours of the 8th current, we have this day handed to Messrs. Brown & Co., 501, Cornhill, £400 Canada 4% Bonds, bought on your account.

Yours faithfully,
A. B. & Co.
(B. Com., Cal., 1961).

31. What is a Code? How and why is it used? What is a Private Code?
What is the special purpose served by this? (B. Com., Cal., 1943).
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CHAPTER VII

MONOPOLIES AND COMBINATIONS

General Principle

In industrial economy, a large proportion of production is made under a system of large-scale production. Units produce commodities under a large-scale system of production and they compete with one another in the market. Gradually, the market is over-supplied with goods, and competing units indulge in cut-throat competition, which leads to price undercutting and loss of profits. At such a stage, individual units want to co-operate with one another for regulating profits. So competition moves towards combination.

Combination takes place for increasing earnings either by effecting economies in production, or by regulating prices.

Monopolies : Absolute and Partial

A combination of producers, regulating and controlling production, may create monopolies. Economic monopolies mean effective or partial control of supply or demand of a commodity. If control is full, it is a case of an absolute monopoly. A monopoly exists if a substantial portion of supply or demand of a commodity is under the control of a single organisation. In Economics, cases of a demand monopoly are infrequently found.

Natural, Artificial, Legal and Social

Monopolies may be natural or artificial. Jute is a natural, or geographical monopoly of West Bengal and East Pakistan. An industrial combination is regarded as an artificial monopoly. Patents and copyrights are examples of legal monopolies, as law sanctions monopoly rights to persons concerned. Legal monopolies are necessary for encouraging invention. Persons may not go in for new ventures if they are not assured of benefits from their invention. Social monopolies are made if a society permits any particular organisation to produce commodities, such as gas,

electricity, water, etc. Post Office is given monopoly of postal matters. Social monopolies are based on economic advantages and convenience.

How a Monopolist Fixes Price

In the case of competition, prices of commodities are determined by conditions of demand and supply, and prices tend to be equal to the marginal cost of production and marginal utility. In the case of a monopoly, the price is governed by different principles. The aim of a monopolist is to obtain maximum gains. He, therefore, fixes the price accordingly. If the monopoly commodity is produced under the principle of decreasing costs, the monopolist will lower the price, so that a substantial quantity is sold. Costs will be lower, and his gains will increase. If his industry is subject to the law of increasing costs, he will prefer to sell a small quantity at a high price, as his profits will increase in such a way. The price of a monopoly has therefore little connection with costs of production.

Industrial and Commercial Combinations : Causes and Advantages

A substantial proportion of modern industrial production is done by large producing units, especially, of the joint-stock type. After indulging in cut-throat competition among themselves they tend to combine.

The developments of transport and transmission of news through wireless, telephone and telegraph have made it possible for a large combination to be brought within manageable compass. The growth of combination has therefore become easy.

As a number of transport companies allow cheap rates for heavier traffic, combinations are formed by producing units for obtaining cheap rates.

The protection of domestic industries helps combination. If industries develop in a country behind a protective wall, they combine for keeping the protective tariff intact by presenting a united front.

In addition to achieving the economies of large-scale production, an industrial combination may reduce selling costs by

advertising less. An industrial combination may so divide the market among participating members as to reduce freights. It may control output, and ensure price stability.

For some industries, monopoly is a technical necessity, *e.g.*, railways, water supply, electricity, gas, tramways, and similar other public utility concerns.

Markets have become international. Risks of selling have increased considerably. Firms may combine for reducing risks of business.

Combination : Horizontal and Vertical

Industrial combinations may be horizontal or vertical. If competing firms engaged in the same line combine together, it is a case of a horizontal combination. For example, different railway companies, steel industries and jute industries combine together. The E. D. Sasson United Mills Ltd. and the Cement Marketing Co., Ltd., are examples. If industries concerned with different lines of production combine, it is a vertical combination. For example, an iron and steel industry combines with a coal mining company, or a transport company. The underlying object of a vertical combination is that the manufacturing concern aims at controlling the supply of the commodity through all stages of production, namely, from raw materials to supplying finished products in different markets.

Forms of Combinations

Trusts and cartels are popular types of combination. They are formed for increasing profits.

Trusts mean an amalgamation. It consists of the fusion of the existing independent units, which lose their independence and merge themselves into a single combined unit. Trusts mean the formation of a single big unit by the unification of the existing independent concerns. It, therefore, increases the size of productive units, and produces economies in production because of large-scale production. Trusts aim at increasing profits by reducing costs of production through improved methods and large-scale production. Since a trust aims at increasing the size of a unit of production, it tends to combine in a single unit several undertakings in different

branches of an industry for becoming self-sufficient. The American Oil Trust has built its own shipping for controlling transport.

Cartel is a much looser type of combination. In a cartel, individual units retain their independence. They combine for some specific objects, such as controlling output, quality and prices. Cartels are formed for increasing profits by controlling output and prices. Cartels are agreements among competing units, and they are less durable than a trust. Cartel agreements tend to break down, if members fail to abide by agreements, although attempts are made to strengthen a cartel organisation by devising voluntary methods for compelling participating members to obey cartel agreements.

As cartels aim at regulating output and prices, they create a monopoly. Trusts merging independent units into a single big unit may effect economies in production. So they are less objectionable monopolies than cartels from the social point of view.

Trusts

A *Business Trust* means an organisation in which the property is vested in one or more of the trustees who manage a company on behalf of beneficiaries or real holders. A *Combination Trust* refers to a monopolistic combination. It means the consolidation of several companies, if shareholders of the companies transfer a controlling amount of their shares to a joint body, established by them under a trust agreement in exchange for trust certificates. The joint body constitutes the *Trust* which acquires a separate legal entity. A combination trust is defined as "a form of business organisation established through temporary consolidation, in which the stockholders of constituent organisations under a trust agreement transfer a controlling amount of their stock to a board of trustees in exchange of trust certificates. These certificates show their equitable interest in income of the combination".

The Trust Movement originated in the United States of America in the formation of the Standard Oil Company. At that time, a number of competing oil companies transferred a substantial portion of their shares to the central company, constituting a Trust, and the members conferred powers of attorney on a few trustees who took up the control of the combining companies. The shareholders of the combining companies were granted Trust Certi-

ficates, entitling them to proportionate profits. The Trust was declared illegal. Later Trusts grew in the United States of America in other forms which could not be declared illegal. In India, trusts are legal, and the managing agency firms look like trusts.

Kinds of Trusts

(i) If shareholders of a number of companies form a Trust by placing their shares in the hands of trustees and they confer irrevocable voting powers of their shares upon the trustees for enabling them to vote according to the will of the latter, a "*Voting Trust*" is formed. The Standard Oil Trust and the Whisky Trust in the U.S.A. are examples. Such Trusts obtain merely voting rights but not ownership of shares which are transferred to the Trustees in trust only.

(ii) A "Community of Interest" type of a trust is formed, if the business policy and administration of the companies are controlled and guided by a group of common directors or shareholders. The individual units of the trust continue to maintain their independence in internal management. It is sometimes called an "*Inter-locking Directorate*", if a number of companies have common directors on their boards. Sometimes, *Inter-locking Directorate* is found, if unity of policy and action is secured among independent firms by agreeing to exchange their directors. They, however, continue under separate and independent control and management. The stability of such a trust is questionable, as its success depends upon the conduct of a director. The managing agency firms in India are similar to such trusts. Companies, managed by the same managing agency firm, have common directors.

(iii) A "Share Exchange Trust" exists if companies forming the trust, issue new shares and exchange them with one another.

(iv) The trust movement has developed and taken a new shape. A new company is formed, and it buys the entire or the majority of shares of the existing companies, forming the trust. It therefore controls the subsidiary companies by means of central control and administration. It takes the form of a Modern Holding Company.

Holding Company

A Holding Company holds either the entire or the majority of shares or stocks of a number of companies for acquiring controlling interest. The latter become subsidiary companies and the former company becomes the Holding Company.

A *Modern Holding Company* is formed either by a new company, or by an existing company acquiring a controlling interest in subsidiaries by owning the entire or the major portion of shares or stocks of the other companies. It is better to start a Holding Company as a new company, as it can be adjusted to circumstances and requirements. The shares of subsidiary companies may be bought either for cash or by giving shares of the Holding Company in exchange. The Burrakur Coal Co., Ltd. and the Associated Cement Co., Ltd., are examples of holding companies in India.

Kinds of Holding Company

A pure *Holding Company* acquires the stocks of subsidiaries without taking over production. The United States Steel Corporation is an example. The Standard Oil Company of the United States of America is a mixed *Holding Company*, as in addition to acquiring stocks of subsidiaries it also works plants. A primary *Holding Company* is the sole head, while an intermediary *Holding Company* is a subsidiary to the primary one, which is sub-divided for control and management.

The managing agency firms in India are like holding companies. Firms such as Messrs. Gillanders Arbuthnot & Co., Ltd. and Andrew Yule & Co., Ltd. are owners of the majority shares of many companies doing the same kind of business. Messrs. Andrew Yule & Co., Ltd., for example, holds not only the majority shares of many jute mills but it also manages and controls them.

Subsidiary companies remain independent legal entities. They continue to function as independent units, especially in matters of internal organisation and management. The unification of interests among subsidiaries is obtained by a holding company through control and supervision.

Advantages

Through the use of a holding company it is possible to pyramid corporation upon corporation until a single company

controls hundreds of other companies with properties worth considerable money.

The holding company is a corporation formed for the purpose of holding stocks of other companies. It does not hold stocks as a trustee for someone else but it owns such stocks. The holding company is distinct from an ordinary operating company. The latter has its capital, or at least a subsidiary portion of it, invested in tangible physical property, such as inventories, machinery, land, and buildings. Its income is derived from the manufacture, sale, or transportation of goods or by giving similar other services. It is difficult to distinguish between holding companies and operating companies because of the fact that the former may carry on activity of an ordinary operating company. Operating companies may own stocks of other corporations.

The holding company is formed for the purpose of acquiring and holding controlling interest of other corporations. The controlling interest may be a majority of the voting stock, or it may represent a minority of the stock which, because of the widespread ownership of the rest of the stock, is adequate for control purposes. A corporation may transact activities of an operating company but if a portion of its capital is invested in stocks which represent controlling interest of other corporations, it is called a holding company. It is sometimes called an operating holding company or a parent company. If a holding company invests its capital entirely in operating activities, it is called a pure holding company. Many operating companies own stocks of other corporations, but if such stock holding is not sufficient to give them control over other companies they do not become holding companies.

The holding company method of combination may be effected by exchanging stocks of the holding company for stocks of the participating company which is taken into the combination. It is easier to reach an agreement for the exchange of stocks than for the sale of assets. An important feature of such a combination is that it requires little cash. The companies merely agree to exchange stocks and properties, sometimes worth millions, and they are acquired without the payment of money. The holding company may sell its own stocks and buy stocks of other companies by the proceeds. In such an event it may not be necessary for the two companies to agree as to what price should be paid

for buying the stocks or it may not be necessary even to agree to combine as controlling stocks may be bought in the open market. The control of a number of companies has been obtained by the secret buying of stocks in the open market.

The holding company method is a cheap means of forming combination. It acquires the stocks only but not the assets of other companies. The other companies may have bonds, preferred stocks and non-voting stocks, but the vote-carrying stocks may be acquired, as this gives control over the entire assets. It is not necessary to buy all voting stocks. A majority of stocks is adequate for obtaining control. If the stocks are held by a number of widely scattered stock-holders, it may not be necessary even to acquire a majority. The holding company offers scope for pyramiding. A majority, or all of the voting stocks in hundreds of operating companies may be owned by a number of holding companies, or semi-holding companies. Controlling interests in the latter companies are held by many other companies, and their voting stocks are owned by a few other companies. The controlling stocks of the latter companies are owned by another holding company. So a relatively small investment in the top holding company can control operating properties worth millions. The pyramiding is prominent in the public-utility field of the United States of America.

A holding company may obtain economies of large-scale production. Vertical combinations accomplished by a holding company produce economies in different stages of production, and profits formerly available at each stage are sometimes increased without any corresponding increase in expenses. The fabricating place obtains raw materials without difficulty, if companies producing them remain within the same combination. Horizontal combinations by a holding company also produce economies. Bigger discounts are obtained through centralized buying. Management is centralized and more efficient than in separate companies. The services of experts may be obtained, and their costs are shared by a number of companies. Advertising may become more effective and cheaper, and duplication of inventories and equipment may be eliminated. Various expenses are reduced by combination.

The holding company can be of considerable value to the subsidiaries for finance. The holding company may be a big well-known organisation with good credit, whereas subsidiaries

can be small companies operating within narrow areas. They are less known to the securities market. If subsidiaries arrange their own financing, they may face a difficult time. They may pay high rates for money. If the holding company could, for example, guarantee the interest or the principal, or both, of subsidiary bonds, interest would be lowered. The holding company may assist a subsidiary by buying bonds or stocks of the subsidiary, and by using them as collateral for the issue of its own bonds.

Companies build reputation over many years of successful operation. The production of high-priced products may sometimes mean losses, because of competition from low-priced commodities. If a company decides to produce cheap products and sell them in the same trade-name as in the case of quality goods, it may affect reputation. So a new company, whose stocks are owned by the parent company, is formed for manufacturing cheap products. The reverse situation can happen. If a company manufactures and sells cheap products, it may decide to produce quality goods. The company in such an event may find it advantageous to organise a new corporation for handling the new products.

The formation of a subsidiary company is advisable if a terminal, bridge, dock, or warehouse is to be constructed for joint uses by many companies. Many companies are formed for transacting different kinds of business, such as production, sales, finance, etc. Price-cutting activities with competitors should be left over to a subsidiary. Because of risks of failure and adverse publicity in experimentation with new products, a subsidiary company is worth forming.

Being a legal entity, a holding company enjoys the privileges of a joint-stock company. Capital is centralised. Hence unified control is possible. Subsidiaries do not however lose independence. They are permitted to carry on as independent units. A holding company helps financial stability of subsidiaries. Advantages of large-scale production and business are obtained by a holding company.

Disadvantages

The liability of members in a holding company is small, compared with their financial powers. This may create dangers

as a result of having powers without liabilities. This may produce monopolies and concentrate power in the hands of a few. Secrecy of interests and operations may spring. It produces complexities in company organisation, mislead results and obscure facts. Inter-company holdings become intricate and it is difficult to disentangle facts for reaching intelligent conclusions about the nature of holding company systems. Analysis by prospective investors and Governmental authorities becomes difficult. A holding company system may be open to dangers of over-capitalisation, as many stocks are issued. Modern holding companies milk their subsidiaries and inter-company contracts are expensive. Separate companies' goodwill is replaced by that of a consolidated unit, and if ill-will starts it becomes dangerous. Amalgamations are often controlled by regulation rather than by intelligent action. Individual responsibility and initiative tend to be discouraged. Minority shareholders in subsidiaries suffer. Inter-company matters are manipulated. To make a holding company work successfully, capable entrepreneurs are required.

Merger or Consolidation

A merger or consolidation takes place by an exchange of shares among companies. It may be formed if a company purchases outright the controlling interest in subsidiary companies. Subsidiaries lose their individual entities.

Forms of Cartels

Cartels originated in Germany, and they are found in the Westphalian Coal Cartel and the Steel Works Cartel.

By *price agreements* among various units, they agree not to sell their products below a fixed price. This type of a cartel is difficult to work, as evasion is easy. By leaving supply uncontrolled, it can hardly maintain prices against competition.

An agreement among units for restricting production by fixed quotas is uneconomic as it perpetuates the existence of inefficient firms. So efficient units are hampered. Such an agreement is found in the Indian jute industry.

Agreements for dividing markets among units on a geographical basis are commonly found. The Imperial Tobacco Company of the United Kingdom and the American Tobacco Company have agreed to work by such an agreement.

Producers form agreements for pooling profits. They may agree that each will pay to a common pool all receipts minus costs, and profits will be distributed among participating members in predetermined proportions. Such an agreement discourages efficient production. As a safeguard against the evil it is usual to fix a standard cost and a standard sale price. It may further be provided that production gains will go to individual firms and marketing profits will be shared.

A cartel organisation may take the shape of a *participating cartel with selling syndicates*. In this type, firms agree to establish a joint selling agency which is registered as a separate company, having the firms as its shareholders. Shares are allotted according to quotas of production held by members. Quotas are given to producing members. Penalty is imposed if the quota output is exceeded and compensation is arranged if quota is not reached. A basic cost of production is fixed. Firms agree to sell their output to the selling agency at a price higher than the basic price, and the selling agency sells the total production in the market. Firms retain production gains for themselves, but marketing gains are shared by members on an output basis.

The defunct Indian Sugar Syndicate was an example of such a cartel. It allotted quotas of production to each of its members annually. The product was sold by the Syndicate.

Ring or Corner

A Ring or Corner is formed by capitalists or dealers for creating a monopoly. Supplies and prices are regulated for increasing profits.

Pool

A Pool denotes a combination of producers for eliminating competition by regulating prices, dividing markets, total output or earnings on an agreed basis. In traffic pools freight is divided among roads. A Gentleman's Agreement is similar to a pool, although there are differences. Pools control quantity rather than prices. Regulation of prices is normally the function of a Gentleman's Agreement. Pools flourished in the United States of America at the end of last century but they were declared illegal being institutions in restraint of trade. They were replaced by

trusts. Pools are illustrated by the Standard Oil Co., Ltd., Burma Oil Co., Ltd., Assam Oil Co., Ltd., and the Royal Dutch Shell group.

Syndicate

A *Syndicate* denotes an association of producers for regulating output and price. Firms sell their production to the Syndicate at a price fixed by the latter, and the Syndicate sells the products in the market. Profits of the Syndicate are distributed among members, according to a fixed arrangement.

Trade Associations

Trade Associations are voluntary organisations of business units in the same branch of industry for transacting activities in the interest of the group. They do not deprive members of the power for making managerial decisions.

Questions

1. Explain the following—(a) Productive co-operation, (b) Co-partnership, (c) Profit-sharing, (d) Cartels. (B. Com., Madras, 1960).
2. What differentiates a monopolist from an ordinary dealer? Give instances of different kinds of monopolies. (B. Com., Cal., 1961).
3. Discriminate clearly between Trusts and Cartels and explain the conditions which favoured the growth of Trusts in the U. S. A. and of Cartels in Germany. (B. Com., Agra, 1961).
4. What is a holding company, and how does it exert its influence over its subsidiaries? What advantage is derived from such an organization? (M.A., Com., Cal., 1959, B. Com., Cal., 1957).
5. Distinguish between a Trust and a Cartel, bringing out the salient features of each. (B. Com., Alla., 1959).
6. What is Monopoly Price? In the case of a complete monopoly, how would you calculate the Monopolist's Profit? Show, by means of a diagram, how, in the case of a commodity subject to the Law of Increasing Returns, it is possible for a Monopolist to reduce the selling price and at the same time increase profits. (B. Com., Cal., 1958).
7. What is a Cartel? How does it differ from Trusts and Pools? (B. Com., Lucknow, 1961).
8. What do you understand by a pool agreement? Do you know of any pool agreement in any industry in Bengal? (M.A., Com., Cal., 1956).
9. Discuss the nature, object and economies of vertical and horizontal combinations. (M.A., Com., Cal., 1958).

10. Indicate the chief reasons for the modern tendency towards amalgamation of business undertakings. Point out the effects of such amalgamation. (B. Com., Alla., 1961).
 11. Discuss the influence of competition on modern industry and trade. (B. Com., Cal., 1959).
 12. Describe the various types of industrial combinations and indicate the strong and weak points of each. (M.A., Com., Cal., 1952).
 13. Discuss the main features of a holding company, and explain the distinction between managing agency and a holding company. (B. Com., Cal., 1942).
 14. What are the chief causes that lead to combination in industry and trade? Illustrate your answer from Indian conditions. (B. Com., Agra, 1947).
 15. Cartels are more popular types of industrial combinations in India than trusts. Discuss this statement with suitable examples. (M.A., Cal., 1951).
 16. Point out the relative merits and defects of holding companies, trusts and mergers as forms of combination in business. (B. Com., 1946).
 17. What are the chief causes that lead to combination in industry and trade? Illustrate your answer from Indian conditions. (B. Com., Agra, 1948).
 18. The cartel is essentially less efficient than the amalgamation. In fact it possesses no advantage except that of easier formation. Discuss. (B. Com., Cal., 1956).
 19. Discuss the nature, object and economies of vertical and horizontal combinations. (B. Com., Cal., 1957).
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CHAPTER VIII

BUSINESS GOODWILL

Definition

Business goodwill denotes reputation and good name a business enjoys.

It originates from the following factors: (1) The good name may be associated with the *name of commodities sold* as in the case of cigarettes and soaps. By trade marks Gold Flake Cigarettes and Sun Light Soap carry a business goodwill. (2) It may be associated with the *site of a particular business*, e.g., a stationery store situated at a busy street corner acquires reputation by virtue of its position. (3) By long, honest and good *dealing with customers* a business house acquires reputation. (4) Goodwill may depend entirely upon the *personality* of a particular business man. It is true, especially, in the case of professions, such as medicine and law. Reputation depends upon the person concerned in the trade. (5) It may spring from monopoly.

Economic Value of Business Goodwill

Business goodwill has economic value, and it is marketable if it is transferred to new hands. Once a business establishes a good name, the name has got to be paid for, if anybody wants to purchase the business. It is an intangible asset. Its marketability will depend upon (a) how far it is possible for the buyer to avail of this advantage, (b) continuity of the business, and (c) absence of competition entirely, or at least to a reasonable degree, of the seller in the same line of business. Where reputation is dependent on personality, the marketable value of goodwill is negligible as in the case of a doctor's trade.

Evaluation of Business Goodwill

The following methods are adopted for evaluating goodwill.

The Super-Profits Method

In the super-profits method profits of a business consist of (1) remuneration of the owner as a manager, as if he is employed

other than in his own business, (2) interest equivalent to the available rate on gilt-edged securities, (3) interest to be earned, having due regard to risks involved in any business, and (4) super-profits, which comprise what remains after allocating remuneration under the above three heads. Unless the profits are sufficient to cover (1), (2) and (3) goodwill cannot be considered.

Before calculating the value of business goodwill, it is customary to arrive at the average annual super-profits of a business. The value is taken to be equivalent to a few years' purchase of average annual super-profits. The number of years taken varies according to business, *e.g.*, in the case of a solicitor's practice in which a considerable proportion of the goodwill is attributable to personality, the number of years will be less than will be taken in the case of a stationery business in which goodwill may depend on the site. If the average yearly super-profits are Rs. 500, the value of goodwill calculated on the basis of ten years' purchase of the profits amounts to Rs. 5,000.

The Annuity Method

The annuity method is scientific and it bases the value of goodwill on the value to the purchaser, at the time of the purchase, of the right to receive an ascertained amount of super-profits every year for a number of years. The value to the purchaser of the right to receive a certain amount of super-profits two years ahead is less than the value of the right to receive the same amount one year ahead; the value of the right to receive the same amount three years ahead is worth even less and so on. The value of receiving an annual payment over a number of years can be calculated, having regard to the rate of interest.

The Capitalisation Method

In the capitalisation method the capitalised value of average annual super-profits is made, assuming a certain rate of interest which is expected in the business. The capitalised value will exceed (if there be any goodwill) the capital employed in the business, and the surplus value of capital measures the value of goodwill.

The methods assume a rate of interest and attention is paid to profit trends. If profits increase business goodwill is valued at

a higher rate. Consideration is made whether goodwill depends on personal factor or not. Reserves in a business are examined carefully.

Questions

1. Illustrate and compare the methods of calculating the goodwill of a professional firm and a firm of manufacturers. (B. Com., Cal., 1958).
 2. Write a short note on goodwill of a business. (B. Com., Agra, 1960).
 3. What is the meaning of goodwill? Why is the buyer of a business prepared to pay for the goodwill and on what is the price usually determined? (N.U.T., 1959).
 4. What do you understand by the term "Goodwill of Business"? How can its value be determined? (B. Com., Cal., 1954).
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CHAPTER IX

BUSINESS INTERMEDIARIES AND SPECULATION

Business Intermediaries

The economic system has become complex and it is no longer possible for producers to sell goods always to consumers directly. There exists a number of people who act as middlemen. Their function is to take delivery of goods from producers and pass them on to consumers. They specialise in marketing. The goods are taken in the first instance by wholesalers, who pass them on to retailers. There may be agents, factors, brokers, dealers, shop-keepers, merchants, etc., who come between wholesalers and retailers.

The middlemen relieve producers of marketing risks. They adjust supply and demand. They help producers manufacture the right kind of commodities. As they do good service, they are entitled to remuneration.

Middlemen are regarded as parasites. It is true that society would be better off if the services of middlemen were dispensed with. But in society they are indispensable, as production is complex and markets are international. Distribution is so complicated that specialised knowledge and tact are required. In this economic system the position of middlemen remains unassailed to a considerable extent.

Kinds of Middlemen

The following intermediaries are commonly found.

(i) *Brokers* denote persons who are employed for making bargains or contracts in business between two persons. They receive commission for their service which is called brokerage. They do not own or possess property or goods. A broker usually helps make a contract between the parties and sends it to a seller and a buyer. The contract sent to the buyer is called the "bought note", and the seller gets a "sold note".

(ii) *Factor* denotes an agent, to whom goods are delivered by the principal. He is both a consignee and a commission agent. Unlike a broker he takes possession of the goods, sells the goods in

his own name, receives prices for them, and sues in his name in the event of a dispute.

(iii) *Auctioneer* means an agent, who is authorised to sell the property or goods of the principal for cash by means of auction which may be private or public. He receives his remuneration either in the shape of a reward or commission. He is expected to conduct the auction himself, unless he is authorised to get it done by others. An auctioneer sells goods either with or without "reserver". If he sells without a "reserver", he sells to the highest bidder.

(iv) *Del Credere Agent* denotes a commission agent, who guarantees the solvency of persons introduced by him to his principal. In the event of a default the del credere agent is liable to indemnify the principal up to the extent of default. He is liable if the parties fail to pay owing to insolvency or financial stringency, but he incurs no liability if the parties do not pay willingly. So the del credere agent is paid at a high rate of commission which is called the del credere commission.

(v) *A commission agent* denotes a person who undertakes to buy or sell on behalf of a principal in exchange of a commission, calculated at a certain percentage of his total transaction.

Speculation : Economic Significance

In business speculation is important. As production is made in anticipation of demand, it is speculative, but the term is used to mean transactions for making profits by differences in price movements. Speculation, therefore, denotes a purchase or sale with a view to a further re-sale or re-purchase at a future date for making gains by differences in prices.

A distinction should be made between legitimate speculation and illegitimate speculation or gambling. Speculation becomes gambling if people having no knowledge of markets, dabble in markets for making profits. In such transactions, speculators or gamblers lose their capital.

Economic speculation aims at making profits by price changes. It is productive and beneficial.

By "arbitrage" operations, such as by buying in one place and selling in another speculators can eliminate price differences in two markets. So they help the territorial adjustment of demand and supply of a commodity.

Speculation stabilises prices. Speculators buy if prices are low and sell if prices rise. There is a specialised class of people, who take the responsibility of selling goods. By business instincts, they help maintain steady prices. They relieve manufacturers of risks of price movements.

Speculation means risk-taking in business. After production commodities are passed to dealers, who undertake risks of price fluctuations. Producers can, therefore, concentrate on production. Other risks of production may be covered by means of insurance. The major risk in business is related to price changes, and it is covered by dealers. They buy from producers and sell in the market according to demand. They help adjust the supply and demand. So they perform a useful service.

Speculation helps producers in two ways. First, manufacturers make contracts and produces for future delivery. If prices of raw materials rise meanwhile they lose but the risk may be covered by contracting to buy raw materials for future delivery. Secondly, producers manufacture for a future market. As prices of raw materials and manufactured goods move together, producers may lose heavily, if prices of raw materials move against them. Such risks may be covered by transactions called "hedging".

If the supply of a commodity is cornered by a few resourceful men for increasing prices, it amounts to gambling.

Bull, Bear and Corner

An example of a *corner* is found if a single person or a group of influential persons aim at controlling the supply of a commodity for controlling the price. It is difficult to corner supplies because if prices rise in one place, supplies flow in from other places.

A *bull* denotes a speculator who aims at making profits by means of selling. Bull and bear operators are commonly found in futures markets and stock exchanges. A bull buys and if prices increase, he sells. Similarly, a bear sells and if prices decline he buys. So a bull and a bear makes profits from price movements.

Arbitrage Operation

Transactions in a commodity take place throughout the world. Operators or dealers try to make profits from price

differences of the same commodity in different markets at a given time. Such transactions are called arbitrage operations. Cotton is traded internationally. Operators will buy it in places where prices are low and sell it where they are dearer. They make profits from differences in prices.

Dealings in Futures

Transactions in "*futures*" denote buying with a view to taking delivery at a future date, or selling for giving delivery at a future date. In neither transaction delivery is made, nor any contract is completed by paying cash. Contracts of sale or purchase are completed at a future date. The transaction helps a manufacturer in buying raw materials for future delivery and relieves him of risks of price fluctuations.

Dealings in "*futures*" may be speculative. Futures contracts of sale or purchase are made not to be completed by delivery or acceptance of goods but they are closed by cancelling the contracts at a future date by making counter contracts. Differences in prices are paid. Suppose A sells B cotton for three months' delivery; at the end of the period, if cotton prices rise A simply buys the same quantity from B, and pays B the difference between the prices. If prices fall at the end of three months, B pays to A the difference between the prices.

Hedging

"*Hedging*" denotes a speculative transaction for covering the risk of a future deal. For example, a cotton manufacturer begins to produce cotton piece-goods by buying raw cotton at the market rate with a view to selling his goods after three months. At the end of three months, prices of raw cotton and piece-goods fall. The manufacturer will, therefore, encounter losses. In order to cover or "hedge" the risk of production, he goes in for "hedging". The manufacturer, at the time of buying raw cotton for cash, will "hedge" risks of production by selling the same quantity of raw cotton at the same time for three months' delivery. So along with his spot buying of raw cotton he makes a forward sale of raw cotton. If after three months, the price of raw cotton drops, as also that of piece-goods in sympathy, the manufacturer's loss on piece-goods will be offset by his profits on the forward sale

of raw cotton, as he sells raw cotton for delivery after three months. He meets the delivery of raw cotton by buying it at a price lower than his sale price.

"Hedging" is, therefore, a healthy economic institution, as it enables a manufacturer to "hedge" or cover risks of production.

Terminal Market

In produce markets there are both spot and future transactions. A terminal market refers to that portion of a market, on which dealings in futures are transacted.

Questions

1. "The financial resources of producers are not adequate to carry the whole risk of price fluctuations as well as the expenses of production." Carefully explain this statement and show how the risk is borne in the modern business world. (B. Com., Madras, 1961).
 2. Define speculation and show how it differs from gambling. Also carefully examine how far the speculator performs a useful function in the modern economic system. (B. Com., Cal., 1959).
 3. What is meant by a "futures market"? What are its advantages and disadvantages? (B. Com., Cal., 1960).
 4. Explain the services and disservices which a Broker, a Middleman may render in the business world. (B. Com., Alla., 1959).
 5. What are the different classes of agents? Explain the functions of each? What is "Del Credere" commission? Explain what benefit accrues to a merchant through its payment. (B. Com., Bombay, 1960).
 6. Discuss the uses and abuses of speculation in commodity futures markets. (B. Com., Cal., 1948).
 7. Define "Speculation" and consider how far the speculator performs a useful function in the modern economic system. (B. Com., Cal., 1956).
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CHAPTER X

ADVERTISING AND SALESMANSHIP

Advertising : An Economic Institution

Advertising denotes the art of publicising the supply of a commodity or the want of a commodity. It is not wise to give publicity to a want, except in a personal sense, such as advertising for a job.

Publicity and advertising are entrusted to experts who specialise in the art of advertisement. It, therefore, involves selection, because modes of advertising are many. Advertising costs are transferred to consumers in the shape of higher prices. It is, therefore, misunderstood that advertising is uneconomic. Whether advertising is economic or otherwise will depend upon results. Advertisement is made with three objects, namely, (a) to create a new demand, (b) to increase an existing demand, or (c) to transfer the realisation of a demand from one producer to another. If the first object is fulfilled, it is productive. If publicity is directed towards transferring the clientele from one producer or supplier to another, it is not an unmixed harm, as it helps competition. So it provides a safeguard against monopoly. So far as advertising increases an existing demand, it is economic. Such advertisement is made in the case of commodities, whose production is made under the law of increasing returns. Whatever additional expenses are incurred on advertising are offset by reduced costs of production. Increased demand results in increased production through a system of large-scale production. Costs are reduced. So prices, instead of being increased, are reduced. It helps consumers make a selection out of a variety of competitive objects. Advertisement leads to grading of quality. By increasing an existing demand or creating new wants, advertising performs a useful function.

Formerly advertising was done in a haphazard way. Now scientific ways of advertising have been adopted. There are so many ways of advertising. Each method is costly, so anybody who wants to advertise must know how to advertise. In advertis-

ing one is guided by two main motives, namely, (a) to spend minimum amounts on advertising and (b) to obtain maximum results. Modern scientific advertisement consists of selecting medium of advertisement which combines minimum expenses with maximum results. A scientific advertiser knows exactly what he wants. He knows how to advertise, and where and when to advertise.

Advertising may reduce costs of production for the manufacturer. It helps him dispense with services of a number of salesmen and other agents, as it may substitute their services.

Advertising makes the position of a manufacturer secure and stable. A manufacturer depends upon wholesale and retail dealers for selling his products. He does not know his consumers. Advertising has helped him to get into direct contact with consumers. He can reach the consuming public by means of publicity and propaganda. So his precarious dependence upon middlemen has been reduced.

Disadvantages

If advertisement takes away customers from one business man and gives them to another, it is condemned. Although it is true to some extent, it has merits. It helps competition. It helps maintain quality and grade of products, and encourage reduction of costs and prices through repeated innovation and improvement.

Some think that multiplication of wants and creation of new objects of consumption are waste and detrimental to human welfare. This is an erroneous conception. The modern idea of progress and welfare consists of dynamics of production and consumption. Production should be multiplied and variegated, new wants must be created, new habits ought to be formed, consumption must always keep pace with production. If advertisement creates new wants and develops new habits, it is not unsocial and uneconomic.

Although there may be unscrupulous traders and dealers who exploit the public by their shoddy and inferior goods through artful advertising and publicity, their success is short-lived. No good business man can afford to do so. The dishonest use of publicity does not produce lasting success.

Forms of Advertisement

There are many methods of propaganda and publicity. The choice of advertisement which one should make will depend upon the nature of the commodity and upon his clientele.

Press

Press publicity is popular but expensive. Press is of two kinds, namely, *general* and *special press*. An advertiser selects press publicity according to the nature of (a) his goods, (b) customers, and (c) costs. For example, if the article is meant for general consumption, it will pay to advertise in a general press, such as '*The Statesman*' or '*The Amrita Bazar Patrika*'. But a chemical instrument should be advertised in a special journal, dealing with chemistry.

If anything is mentioned about a commodity in an editorial column or "*news*" of a paper, it is called *editorial publicity* which is rarely done and is expensive.

Press publicity may be made by daily papers or by periodicals and magazines which are issued weekly, fortnightly or monthly. Through a daily, it is possible to repeat an advertisement constantly for popularising a commodity. An advertisement in the daily press should be repeated if it is to be effective. A periodical has an advantage in the sense that it is read for a longer time. It is kept on the table for a pretty long time. As periodicals are read over a longer period, an advertisement is likely to be noticed some day or other. Daily papers circulate within a particular country, but a periodical or a magazine may circulate in many countries. Books which command a world-wide market may have good publicity if they are advertised in magazines.

Window and Outdoor Display

In window and outdoor display, the aim is to catch the eye of the public. Many shops adopt *window display* for increasing sales. Outdoor display includes *poster advertising*, *sky-signs*, *exhibitions and similar other things*.

Fairs and exhibitions are media of publicity. Exhibitions may be local, national, or international. Such advertisement

pays well in the case of commodities of comfort and luxury, *e.g.*, motor cars, in the case of commodities of international use, *e.g.*, engines and machinery and in the case of new invention and discovery.

Outdoor display by means of posters, placards, moving figures, electric switch lights, cards fixed in trains, buses and trams, kiosks, etc., is used as a suitable medium of advertisement. In such publicity care and attention should be taken for making the copy of the advertisement brief, attractive, appealing and inoffensive. In order to prevent obscure, objectionable or indecent advertisement in England and America, there are Posters' Unions. They generally supervise and control such types of publicity. Such media of publicity are useful in the case of goods of general use. They appeal to masses. So they pay in the case of cinemas, theatres, patent medicines, tooth paste, soaps, food-stuffs, etc. The advertisements are accompanied by pictures which speak volume. For example, the picture of a man blindfolded spotting a particular brand of drink by mere taste is a suggestive advertisement.

Cards fixed in trams and trains attract the attention of passengers. In travels people look round and read advertisements for spending time.

Advertisement by means of electric switch lights is common in a big city. It is expensive but it is worth while in busy thoroughfares. "Neon Sign" advertisements are less expensive than switch lights, and they are becoming popular.

Outdoor advertisements are useful in the case of goods which are advertised simultaneously in Press and newspaper. If people see any advertisement cursorily in the newspapers, its counterpart in the tram or train will attract their attention quickly and forcefully.

Shops, especially departmental stores, go in for window display. Commodities are placed behind well-designed and decorated windows, flashed by coloured electric lights. Goods of new designs and fashions are displayed in the windows. Prices are attached to them for making them attractive. People become buyers by seeing articles in windows. Goods, especially of individual taste and fashion, such as dress and wear, are usefully advertised by this medium.

Many shops, including departmental stores, advertise by holding seasonal "sales", if special reductions in prices are offered.

The method should not be abused. Some firms have started holding "sales" frequently and they do not even offer any special reduction in value. So the public lose faith in such an advertisement.

Theatres, Cinemas and Amusements

Places of amusements are utilised as media of advertisement. During or after intervals films, narrating a short sketch of an advertisement, are exhibited. Programmes in amusement places are quite useful methods of publicity. At intervals or after going home, people read theatre programmes (which they take home), and advertisement there catches the eye of the readers. Advertisement, if it is read in places of amusement, produces an appeal. Care should be taken for preparing advertisements which are inserted in amusement programmes. People go there for enjoyment. So texts of the advertisement should be written in a way which will be pleasant to read. It is effective if it contains words with humour and fun. The practice of incorporating in such programmes topical songs is interesting as people are tempted to keep them.

Film Publicity

Cinema provides a suitable medium for advertisement. Cinema talkies give an opportunity for advertising by means of suitable selling talks.

Radio Broadcasting

Radio broadcasting is a medium of publicity, and it is commonly utilised as an advertisement technique. In such publicity, attention should be paid to making the advertisement pleasant, illustrative and entertaining, as people switch on their radios during leisure for the sake of entertainment.

Co-operative or Group Advertisement

Group publicity is made by associations of firms, by groups of companies and by cartels or trusts on behalf of many. Group advertising as distinct from competitive advertisement, is economical. The Indian Insurance Offices, for example, advertise for increasing business.

Prospectuses and Catalogues

Business firms issue prospectuses and catalogues. They should contain detailed description of articles advertised and should give price quotations. In order to make them presentable, they should be carefully prepared. A neat get-up is essential. It is necessary to get them printed on good paper, beautifully bound and artistically jacketed so that they can be preserved. Some firms make them in such a way that the public do not find much difficulty in preserving them as hangers and similar things are attached to them.

Circulation

Advertisement and publicity are made by circulars and letters. Circulars canvassing for goods are issued to customers. They are distributed by means of leaflets and pamphlets, or posted to people. They are briefly worded. They should be interesting to read and made effective in appeal. Sometimes booklets are used for this kind of publicity. Such advertisement is used instead of expensive press publicity. It is useful if people do not read magazines or newspapers. Cinemas, theatres, circuses etc., use this kind of advertisement as customers are mostly local. Leaflets are circulated by beat of drums for attracting the attention of the public.

Samples and Coupons

Manufacturers and merchants distribute *free samples* and *coupons* for advertising their goods. Dealers allow *discount* and *rebate* on purchases, if the latter reach a specified minimum amount. Firms advertise by giving calendars, knives, weights, diaries, etc., free.

Trade Marks

The trade mark of a particular commodity is in itself an advertisement, e.g., Gold Flake Cigarettes, Horlicks and Bovril. Legislation has given protection to producers or dealers of a particular commodity which establishes reputation. The name of any commodity can be registered under a "*Trade Mark*" and once a "*Trade Mark*" is registered it can no longer be used by others.

Technique of Advertising : The Copy

A copy denotes the text or contents of an advertisement. For its preparation great tact and ingenuity are required. The success of an advertisement depends upon an ingenious make-up. Although the preparation of a copy is governed by special factors in each case, the following elements should be incorporated in preparing a copy.

Suggestive and Conviction Value

The wording of an advertisement should be drafted in a concise and precise manner. It should be written in simple and lively style, so that one can understand it. Suggestive pictures may be used, if required. Both words and pictures convey suggestive and conviction value. The copy should suggest that advertised goods can be used profitably. For example, if "Ovaltine for sleep" is repeated it will give an impression that Ovaltine is good. The wording should be politely phrased except in special cases. A commanding tone may be useful in the case of an examination, e.g., "Join Accountancy classes in Joseph's College for passing R.A. examination" may be useful. Pictures must be attractively and delightfully designed so as to appeal to prospective buyers. Any repulsive language in a picture must be avoided. When an advertisement is given in competition with other goods in the same line, it must be convincing. The advertisement must contain words which prove distinctiveness and merit of goods. To give an advertisement in an ordinary way is mere waste of money and energy. Commercial firms therefore prefer a full page advertisement for avoiding competitive advertisements on the same page.

Attention Value

The copy should be so designed as to possess attention value. The attention of the public should be drawn to the advertisement.

An advertisement should have distinctive characteristics. Types properly selected can go a long way for focussing attention. Sometimes blank spaces surround an advertisement for making it attractive. Reply coupons, especially in triangle forms, are attached to a coupon for attracting attention. If an advertise-

ment is meant to attract wealthy people, it is better not to insert price lists. Price quotations, however, should be given if there is a special reduction in prices, e.g., in the case of a "sale".

A properly worded and composed headline helps strengthen the attention value of an advertisement. A common method of attracting attention is to demonstrate in figures or pictures the utility and beauty of goods which are advertised. It is effective in dress-making, drapery, fashion and similar lines. The get-up and lay-out of the copy should be attractively designed. They should be pleasing and appealing.

Colour is adopted for attracting the public. Red, yellow, blue and black colours are used. In street advertisements, it is found that switch lights and moving figures are utilised. Variegated colours are exhibited. "Neon Signs" designs are becoming popular for making advertisements attractive. Such advertisement is useful in the case of food.

Catchy pictures or phrases are used in a copy but proper care should be taken to see that sentiment of the public is not hurt.

Reception Value

It is not adequate if a copy is made attractive, suggestive and convincing as the effect of an advertisement could be lost if people forgot it. So it is necessary to design the lay-out of a copy in such a way that a permanent impression is made on the public. It can be done either by (a) giving to the copy a permanent touch of novelty or design, or by (b) constant repetition. If an advertisement is repeated, it lingers in the public mind. People become familiar with the commodity advertised by seeing it frequently in press, poster and other places. If a commodity becomes familiar, it is sold without difficulty.

Sentimental Value

Sales may depend upon sentiment of buyers. In that event the advertisement should appeal to sentiment. In food the sentimental value is important. People patronise a place where they find good and clear food and satisfactory service. Indians prefer domestic goods to foreign ones. So an Indian manufacturer must not forget to say in his advertisement that his goods are domestic.

Instinct Value

Human beings can be guided by instincts. If an advertiser takes notice of instincts in preparing a copy, he may achieve good results. The advertisement of food and drink should appeal to self-preservation instincts. Banks, insurance companies, and similar financial institutions succeed if they can tap hoarding and saving instincts. It is held that hoarding and saving instincts are universal. Sporting goods, rifles, guns, etc., may be advertised by appealing to hunting instincts of individuals. Dealers in baby's dresses, toys and requisities get along quite well by advertising through copies, which appeal to parental instincts. Parents have sympathy and love for children. Curiosity is a strong instinct, so advertisers say that their goods satisfy curiosities and desires.

In preparing a copy, an advertiser will be guided by the fact whether he wants to advertise the firm in general, or any particular commodity of the firm. When the firm in general is given publicity, it is known as institutional advertising.

Educative and Creative Value

Educative and creative values of an advertisement are great. When a new object or invention is to be popularised, the copy should be made educative and informative. It should say about the utilities of the advertised commodity. It should explain the usefulness of the commodity. For example, the advertisement of a refrigerator should contain information about its usefulness. The advertiser should aim at creating in people a want for the commodity. The educative and creative value of a copy is important in the case of a commodity which is meant to replace an existing commodity. It is a question of changing the old habit for a new one. For example, if people are used to buying "Austin" motor cars, and if some new cars, such as "Fiat" want to capture the market, the "Fiat" company has to explain the merit of the car and prove to the public by advertisement that the car will be as good as an Austin. Sustained publicity is required for creating a habit, and more so in changing an old habit for a new one.

Internal Publicity

Many firms acquire reputation by preserving an up-to-date office, an efficient and pleasing staff, and smart correspondence.

If a firm creates a goodwill for honesty and service, it serves the purpose of advertisement.

Publicity of a firm depends upon its *salesmen*, who can, by their personal touches, create for it an enduring publicity.

“Keying” in Advertisement

A producer or a merchant may be confronted with alternative sources of advertisement. As it is not possible to advertise everywhere, an advertiser, if he selects a particular mode of advertisement, must discover the result of an advertisement. In assessing results, an advertiser gives a “key” with every advertisement by following which he can know the result. “Keying” may be done by (a) means of *different addresses*, e.g., the Bata Shoe Company may give different addresses in different papers, and as enquiries come they can find out the sources by tracing different addresses, and (b) by giving the names of different departments in different papers, e.g., Departments A, B and so on. A key may be given by attaching a *coupon* with an advertisement and by requesting that all enquiries should be accompanied by the coupon. The advertiser may say that in replying to an advertisement the name of the paper in which it is found should be mentioned.

Follow-up System

Advertising by itself is not effective, unless attempts are made to make a full use of an advertisement and this can be done by a follow-up system. When an advertisement is given, enquiries follow and they are answered. A business man should make an index of enquiries and each enquiry should be followed until it produces an order. A follow-up system means that an enquiry is answered and if nothing is heard for some time follow-up letters should be sent until the enquiry is disposed of.

Salesmanship

Salesmanship consists of selling goods or services. It is the duty of a salesman to point out the merit of his goods and induce people to buy them. It serves the purpose of an advertisement. It is called personal advertisement. Salesmen may popularise a

particular commodity and make it a good seller. Advertisements followed by means of propaganda through an army of salesmen produce good results. If people see an advertisement before they are approached by salesmen, it becomes easier for salesmen to sell the commodity.

Salesmanship and Psychology

Salesmanship and psychology are closely related. It is necessary to have a knowledge of psychology for becoming a good salesman. A salesman has to impress a customer in many ways. The duty of a salesman is to sell a commodity. If a salesman meets a customer, he will try to sell him his goods. He must study and understand the mind of a buyer. He will act in such a way that a customer is convinced. A customer may be determined to buy a commodity. It is the function of a salesman to change his mind and sell him other goods. A salesman must possess a knowledge of his goods. In influencing a customer, he must proceed slowly and courteously. He must assert his personality without giving an air of superiority. He must not try to be more intelligent than a customer. He must not use an offensive or objectionable language. A salesman must be careful to see that the instinct of superiority of a customer is not hurt. A customer will not like a salesman if the latter wants to be more intelligent than the former. A salesman should influence a buyer by a slow process of admiring the customer's judgment and taste without flattery. Genuine admiration wins a man. The salesman goes a long way if he is polite and gentle. His behaviour and personal charm will exercise a great influence upon a buyer.

Criteria of Salesmanship

A salesman must possess a knowledge of psychology. He must have good education and a pleasing personality. Good and polite manners are indispensable for a good salesman. He should always wear neat and clean dress. He must make a good impression at the beginning. A salesman should have a good appearance, and he must greet customers with a smile.

Salesmanship is important in retail business. A retail shop depends for success upon salesman. A salesman must know his

goods thoroughly. He should possess a good knowledge of business so that he can answer a question smartly.

As soon as a customer enters a shop, a salesman will greet him, make him comfortable and inquire if he can be of any service to him. If the customer wants to see any commodity the salesman should study his wants and his capacity to buy. It is safe to start by showing average priced goods. At no stage, the salesman should decry goods of any quality. He should merely point out the merit of each grade. Varieties of articles should be shown without grumbling until the final choice of the customer is made. The salesman should try to emphasise the special quality of the commodity shown to the customer. If the customer loses temper, or shows an unreasonable attitude, it should be tolerated. If he puts an objectionable question, it must be politely answered.

A customer may raise several objections. He may argue that prices are cheap in other places. The salesman should answer by saying that his goods are of better quality. If the customer wants to try any other place before making a purchase, the salesman must tackle the matter in a clever and polite manner. He may say that he will keep the article reserved for the customer, or he may point out gently that if buying is not made immediately other people may buy it. It is a good practice to allow a customer for making a selection out of several goods. He should be given opportunities of examining the goods from every angle. If necessary, a customer should be allowed to take the article home for approval. It impresses the customer, if he is allowed an option of returning, or substituting the article if it proves unsatisfactory. At no stage, a salesman should decry his rival shop as it creates a bias in the mind of a customer.

The Press and Printing Processes

It is necessary for an advertiser to know the technique of printing. He should know about types, their arrangement and lay-out. The compositor should be instructed as to how he should prepare the copy for printing. The printer ought to be instructed about types he must use for heading or display matter. Types are measured by the "point system". One inch is sub-divided

into 72 points, and the following word "Mind" is shown in one inch type, consisting of 72 points.

MIND

In counting points, the height of the body of the type is measured. If the type is stated to be of 10 points, it refers to the body of the type and not to the face of the letter, which is of the same size in respect of the height. For example, the face of a 10-point capital M is 8 points high, the remainder being taken by the "cm" of the type, indicating the square on which the type is put, while one "en" is one-half of the area of an "em" in width. A lead means a slender strip of metal inserted between lines of types to make space, and it gives to the printed material an open appearance. If two leads are put between lines, the type becomes double leaded, and the type is known to be solid if no lead is used. Thickness of lead may vary from 1 to 3 point leads, and it is desirable to advise the compositor about the point of lead to be used. Types are of two kinds, such as display and body types. Display types are sub-divided into condensed 10-point types, bold medium types and bold extended types.

CAPITAL

CAPITAL

CAPITAL

CAPITAL

CAPITAL

CAPITAL

Body types are either old style Roman, or modern style Roman, the former being commonly used. The design of the type is named "face", and each face is known by its name. Faces are sub-divided into series, and series are known as family. Types of the same family denote associated faces. Types are supplied in founts, and a fount of type holds the proportion of various letters of the alphabet along with numerals, punctuation

marks, etc. Every face possesses its fount of complete types. Types are set either by hand, or machines. There are two kinds of machines, such as "Monotype" and "Linotype", which are used for setting types. The "Monotype" produces individual characters, or combinations of characters, while the "Linotype" casts types in necessary width. Machines are employed for setting display matter mechanically. "Intertype" machine is used for producing a compound material. "Monotype" and "Linotype" machines cast their types in a mechanical process and put cast types automatically into correct positions as they are composed. The machine puts the type line by line, and as soon as a line is finished, it automatically makes the necessary movement for starting another line. In a "Linotype", the material is cast in lines or "slugs", and the advantage of such setting is that the material is produced, cast and assembled quickly. There is little chance of getting mixed up by accident as it is a solid line unlike a "Monotype". Although it is difficult to correct an error in a "Linotype", an expert mechanic makes corrections by dropping a hand-set character, after cutting a letter from the line, made by the "Linotype".

Roman types are distinct from Italics, and one should indicate to the printer the types which are to be used. The word "Roman" indicates Roman types, and "Italics" Italics types.

How to Correct Proof

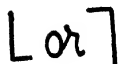
Correct and accurate proof reading is important in press work. It increases the efficiency of the press, and eliminates mistakes in printing. The process of correcting proofs requires careful and expert handling. A press maintains expert people on the staff for making correct proof reading. The procedure is that after the matter has been composed, proofs are corrected by the press staff. At this stage they are called galley proofs. Later pages are made up with necessary corrections and the pages are sent to an author, or his representative for final approval. If pages are corrected and approved they are printed. A broad outline of the process of proof reading is given below. The signs are given to mean the words given against the signs.



This sign between words means to amend, equalize and improve spacing.



The sign comes after a word or syllable at the end of a line. This appears bad, move to the preceding or following line.



On either side of a word. Centre this word or group of words on the measure.



Between letters or words. Transpose these letters or words.

new Par
or N.P.

Start a new paragraph where indicated by ¶



Indent line one em of size type used.



Between two paragraphs. Run on, or put these two paragraphs into one paragraph.



Round the beginning of the first word of a line. Start this line where the perpendicular lines are.



Between lines near the bottom of a page. Take these lines over to the next page.



Under fl, fi, ffi, ffl, ct. or st. change for a ligature, fl, fi, ff, etc.



Between lines near the top of a page. Take these lines back to the previous page.

l.c.

Change to lower case.

S.C.

Change to small capitals.



Put colon.

/en/

Put en dash.

?/

Put interrogation mark.

┌

Raise to proper position.

└

Lower to proper position.

□ □

Indent 2-ems.

□ □ □

Indent 3-ems.

┴

Push down this lead or space.

X

Battered type ; change.

||

Line up ; that is, make the lines even with other matter.

^

Make correction as indicated in margin.

⤿

Join these letters in a logotype, as œ, æ, etc.

===

Straighten lines, or type out of line.

caps.

Change to capitals.

rom

Change to Roman.

b.f.

Change to bold face.

ital

Change to Italic.

,!

Put comma.



Under word, "Place this in small caps."



Under word, "Place this in bold-faced caps."



Under word, "Place this in bold-faced caps and lower case."

~~stet~~

Retain crossed-out word or letter.

out —
see copy.

See the copy for an omission here.

Under a cancellation, indicates "Let it stand"; used along with "stet" in the margin.

run over.

Run this word or syllable on next line.

run back

Run word or syllable back to the preceding line.

~~∫~~

This mark, delete, indicates "Take out the crossed-out type, word, or sentence."

~~∫~~

Take out the character indicated and close up.

no ¶

No paragraph: sometimes indicated "run on."

tr. or trs.

Transpose words or letters as indicated.

w. f.

Wrong fount; make proper fount.

○ or
spell out

Spell out the enclosed word or words.

;/

Put semicolon.

Under word, "Place this in italics."

 Under word, "Place this in caps."

A Begin a paragraph here.

run on Make no break in the reading.

∨ Insert apostrophe.

Qy.or? Is it right?

“ ” Insert quotation marks.

Eq.# Equalize spacing.

9 Upside down ; reverse.

Insert space here.

(Close up—no space.

] Move this to the right.

[Move this to the left.

○ Put period.

/—/ Put one-em dash.

/2/ Put two-em dash.

-/ Put hyphen.

Preparing a Lay-out

A lay-out is prepared for the guidance of a printer or a compositor, and it indicates the arrangement of the matter in the copy of an advertisement, including illustration, picture, block or trade mark. The lay-out should be so made as to give a rough picture of the shape which the advertisement will take. In the lay-out, instructions are given in the margin by drawing a ring in respect of size and class of types to be used. It is also indicated where the block or picture should be given. It should show the depth and width of the advertisement. If a block is to be used it is preferable to paste an impression of the block on it, or the

6" SPACE

LAY-OUT

| | | |
|---|---|---|
| <p>HYDRAULIC MACHINERY Of all Types, including PUMPS PRESSES Accumulators</p> | <p>Block showing the Hydraulic Machinery</p> | <p>Rest in 12 point Roman</p> |
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block should be indicated in the lay-out by drawing a square at the spot where it should be given. If more than one block is used, they ought to be numbered and indications should be given by numbers. Borders, if any, should be indicated by drawing the same in the lay-out in correct positions by a ruler and a pencil. It is necessary to indicate the size of types and the space, occupied by body types. If faces of types are known they should be indicated. Lines are indicated by filling the space with pencil lines in accordance with width and measure of the body matter. A specimen lay-out is given on the top.

Glossary of Printing Terms

| | | | |
|----------------------|----|----|---|
| Advance sheets | .. | .. | Sheets of a book or journal sent before their formal publication. |
| All in Hand | .. | .. | Copies have been given to the compositors in full. |
| All Out | .. | .. | The copy of type is finished, and compositors have no work. |
| All Up | .. | .. | The copy is ready in proper order. |
| A.P. | .. | .. | Author's proof, <i>i.e.</i> , printer's proof sent to the author with the manuscript after corrections have been made by the proof-reader for final confirmation. |
| Antique | .. | .. | A German term for Roman types. |
| Author's corrections | .. | .. | The author makes changes in his original manuscript after it is composed and for this an extra money is charged by printers. |
| Backs | .. | .. | The inside margin of a book, <i>i.e.</i> , on the side binding. |
| Bleed | .. | .. | When the book has been cut down or trimmed so closely that the actual print has been cut or mutilated. |
| Bold face | .. | .. | Abbreviation for this is indicated by <i>b.f.</i> , meaning a type with a heavy face. |

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| Body Matter .. | .. | The portion of the advertisement, or print set in body types, opposed to display types. |
| Caps or Small Caps .. | .. | Capital or small capital letters. |
| Casting off .. | .. | Measuring space that may be taken up. when set in types. |
| Chase .. | .. | This is an iron frame into which all composed types are locked and made ready for press. |
| Cloth Boards .. | .. | Books bound in cloth cases. |
| Clean Proof .. | .. | Proofs with very few corrections. |
| Colour Forme | .. | A forme printed in colour to register with a black forme. |
| Colour Type .. | .. | Other name for outline type. |
| Collate .. | .. | Examination of printed sheets of a book to see whether all are in regular order. |
| Crash Finish .. | .. | Papers with rough surface and look like crash, a dress fabric. |
| Cut Out .. | .. | Half-tone print from which the background is so shifted that the figure is left clearly outlined. |
| Cut off .. | .. | Measuring the amount or space which the copy will take when set in type. |
| Delete .. | .. | Proof-reader's mark indicating that the matter must be removed or taken out. |
| Dirty proof .. | .. | Proof with many errors. |
| Distributing .. | .. | Replacing types in various boxes after printing is finished. |
| Display .. | .. | The technique of arranging types in such a way that attracts attention. |
| D/c. .. | .. | Double column. |
| Double-leader | .. | Matter with two leads or strips of metal which are inserted between types. |
| Duplicate or Dup | .. | An extra facsimile proof sent with the official proof when two proofs are necessary. |

| | | |
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| Dummy Copy | .. | A copy of the book or pamphlet made with blank pages of the number likely to be covered by the book to show the probable size of the book. |
| Edition de luxe | .. | A French term meaning large paper editions of nice books. |
| Electrotype | .. | A copper covered duplicate of block matter or type. This is prepared according to height of the type with a wood or metal base. It is also known as "electro". |
| Errata | .. | A printed list of errors with pages in a publication to draw attention of the reader. |
| Etching | .. | A process in which zinco surface for printing or half-tone is produced. |
| Even Page | .. | Even numbered page, <i>e.g.</i> , 2nd, 4th, 6th, etc. |
| Face | .. | Printing upper surface of a type, or a zinco or halftone or any other printing plate or block. |
| Follow copy | .. | It means that the exact wording and punctuation must be followed or copied similar to the copy, and printer is given no discretion in this detail. |
| Foot-note | .. | It means that which is to be printed at the foot of the page to which it relates as a note. |
| Forme | .. | Types, blocks, etc., locked up in printer's chase for being put in the press for printing, or in the foundry for duplicating. |
| Fore-edge | .. | Outer margin of a book, distinct from head or tail. |
| Full Bound | .. | A book fully bound in leather. |
| Full Point | .. | The printer's term for a period. |
| Galley proof | .. | Proofs in slip forms which are to be made in pages; or the first proofs of the composition before they are put in pages. It is also called "In Slip". |

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| Galley | .. | .. | A three-sided tray in which a compositor places types which he has set. |
| Gilt tops | .. | .. | It means tops of the book which are bound, and gilt for saving them from being soiled by dust. |
| Half bound | .. | .. | Signifies bound partly in leather with cloth or paper side. |
| Half-tone | .. | .. | Indicates Photo-engraving in which the relief lines are produced through the etching of a plate which has received the photographic picture by means of a fine rule glass screen, having 50 to 200 lines in the inch. |
| Hair spaces | .. | .. | Thinnest metal type space in use. |
| Hanging para | .. | .. | A paragraph in which the first line is projecting on the left. It is known as Hanging Indention. |
| Heads | .. | .. | Top margin of books, indicating margin at the top of the page. |
| Imprint | .. | .. | The name of the publisher or printer at the end of the printed matter. |
| Initial letters | .. | .. | Large capital or ornamental letters, used to attract readers' attention at the beginning of a chapter or an important paragraph. |
| Inset | .. | .. | A sheet or section of one or more leaves inserted or placed between folded pages of a book ; also termed insert. |
| Insertion | .. | .. | Additional copy which is to be placed in the original copy or proof which has been out by accident or otherwise. |
| Jobbing Room | .. | .. | Composing room of a printing office where jobs are set, distinguished from book or newspaper department. |
| Keep Standing | .. | .. | An order issued to the printer not to distribute types as they are likely to be required for reprint. |

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|--------------------------|----|----|---|
| Kern | .. | .. | The back of a type overhanging the body as in the case of "f" in italics. |
| l.c. | .. | .. | Lower case. |
| Letter Spacing | | .. | Extending words by placing space between each letter. |
| Leaders | .. | .. | Dots or hyphens inserted at intervals to guide the eye across a blank line to price figures, folios in table of contents, etc. |
| Ligature | .. | .. | Two or more types meaning two or more letters which are cast of one body to prevent the breaking of kerns or other overhanging parts of the letter, also called Logotype. |
| Line Drawing | | .. | A drawing which consists of solid black and white elements, prepared by a brush or pen. |
| Line Block or Line Zinco | .. | .. | Block which has been reproduced in solid black and white. |
| Linotype | .. | .. | A type-setting machine, casting complete lines. |
| Lithography | .. | .. | The art of reproducing printing matter from a flat lithographic stone, or a metal plate on which a transfer of drawn design has been prepared. |
| Live Copy | .. | .. | A manuscript to be made into type. |
| Makeup | .. | .. | To arrange typed matter into pages. |
| Matter | .. | .. | Type which has been set. |
| Measure | .. | .. | The width to which the typed matter has been set. |
| Middle leads | .. | .. | Leads of 2 points in thickness and are so named as they come between thin leads and thick leads. |
| MS. | .. | .. | Manuscript ; plural MSS. |
| Monotype | .. | .. | A type-setting machine which casts individual letters and characters. |
| N.R.M. | .. | .. | Next reading matter. |

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|-----------------|----|---|
| Nickel type .. | .. | A type which is moulded electro by putting the mould in a bath containing nickel solution. This gives it the shell of nickel and afterwards it is placed in a copper bath so that the second shell is formed of copper. Hence the type gets harder wearing quality. |
| Nickel faced .. | .. | Stereo with nickel facing to give it a long life. |
| Nonpareil .. | .. | Six-point types generally used by newspapers for reading matter. |
| Odd page .. | .. | Contrary to even. |
| Offcut .. | .. | The part of a sheet of paper which is to be cut and wasted when a size which exactly fits in the page or number of pages for printing purposes cannot be obtained. |
| O.P. .. | .. | Out of print. |
| Open Spacing | .. | Wide spacing between words and lines. |
| Overrunning | .. | Re-arranging lines of types to improve spacing arrangement or allowing words to be put. |
| Out .. | .. | An omission mark in the copy or proof. |
| P .. | .. | Abbreviation for page ; plural pp. |
| Pica .. | .. | 12-point type. Six lines of pica set solid are equal to an inch. |
| Quoted paper | .. | Paper used for half-tone work which possesses a very fine, hard and smooth finish. |
| Quarter Bound | .. | Books bound with back made of leather only. |
| Run on .. | .. | No paragraph is wanted. |
| Running title | .. | The title of the book put on top of every page. |
| Run Round Block | .. | Types set to surround a block. |
| R.P. .. | .. | Reprint. |
| R.C. .. | .. | Small capitals. |

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|--------------|----|----|--|
| Script | .. | .. | Types prepared in imitation handwriting. |
| Solid matter | .. | .. | Types based without lead. |
| Stet | .. | .. | It is used to indicate to the printer to ignore any correction which has been made by mistake in the printed matter. |
| Take | .. | .. | A portion of matter handed over to a compositor. |
| T.C. | .. | .. | Till countermanded. |
| T.a.w. | .. | .. | Twice a week. |
| Text | .. | .. | The body of a book, distinct from notes, index, illustrations, etc. |
| Thin leads | .. | .. | Leads $1\frac{1}{2}$ points in thickness. |
| Thick leads | .. | .. | Leads three points in thickness. |
| T/Col. | .. | .. | Top of a column. |
| Transpose | .. | .. | To change the order of words or types. |
| Type high | .. | .. | Exactly the height of a type. |
| Ungathered | .. | .. | Books delivered to binders in sheets. |
| White | .. | .. | Space between lines or groups of types. |
| Wrong fount | .. | .. | Types of a different character from others, erroneously used in composition and should be replaced. |

Institute of Art in Industry

The Indian Institute of Art in Industry is a useful organisation for business development. Its object is to guide by practical means the development of commercial art and industrial design, and encourage handicrafts. It serves as a link among artists, designers and industrialists, business men and citizens. It organizes art in industry exhibitions, builds up a permanent collection of outstanding examples of art, and acts as a centre of information concerning all aspects of art applied to industry. It is a guiding force in art as applied to industry. It assists the development of commercial art in India.

Questions

1. Explain the real functions of an advertisement. (B. Com., Bom., 1960).
2. State the various ways in which goods are brought to the notice of prospective buyers. What do you mean by "keying" in advertisements? (B. Com., Cal., 1958).
3. What are the chief points to be taken into consideration in deciding the form an Advertisement should assume? (B. Com., Cal., 1956).
4. Explain carefully and in detail the essential elements which a good copy of an advertisement should embrace. (B. Com., Madras, 1960).
5. State the potential value of window display as used by (a) A general stores, (b) A Manufacturer, and discuss the important factors which an efficient manager should particularly note. (B. Com., Alla., 1961).
6. The New Behar Pottery Works, Ltd. has been recently started at Mihijam with a capital of Rs. 10,00,000 of which Rs. 5,00,000 in ordinary shares of Rs. 10/- each and the balance in 5% Preference Shares of Rs. 100/- each are offered for public subscription. The Company has secured the services of an expert of 15 years' experience. But this in the form of an advertisement. (B. Com., Cal., 1929).
7. What do you understand by scientific advertising? Discuss carefully the elements which a good copy of an advertisement should embrace. (B. Com., Saurashtra, 1960).
8. You have placed a new type of sewing machine on the market and you have advertised it in the three leading daily newspapers and two leading monthly journals, inviting enquiries from prospective selling agents. What methods would enable you to obtain a fair measure of the effectiveness of each of the above five advertising media? (B. Com., Cal., 1949).
9. Is there really any utility in Advertising? Explain very clearly. (B. Com., Madras, 1960).
10. What are the most important psychological effects which are sought to be attained by skilful methods of advertisement? (B. Com., Bombay, 1956).
11. What do you think of Theatre Programmes as a medium for advertising? (B. Com., Bombay, 1961).
12. Do you accept the view that advertising is waste? Give reasons. State what points you would consider and what details you would note while preparing a catalogue for advertisement purposes. (B. Com., Bombay, 1962).
13. What are the different ideas of "Colour Combinations" in advertisement and their effect upon the reader? Draw up a scheme for a series of seven cards, one to be displayed on each day in a tram-car in connection with the mark of a particular motor-car. This series is to be used simultaneously with other advertisements in newspapers and magazines and is to serve only as a remainder. Suggest the picture and colours in connection with each card you propose. (B. Com., Bombay, 1959).

14. Explain the relation between salesmanship and psychology.
(B. Com., Bombay, 1957).
15. Briefly mention the principal characteristics of a successful salesman.
(B. Com., Bombay, 1960).
16. What constitutes the efficiency in the work of an inside salesman?
(B. Com., Bombay, 1927 and 1928).
17. Explain the usefulness of advertisement in modern business. Describe the various methods of advertisement usually adopted.
(B. Com., Cal., 1942).
18. Explain the value of advertisement in modern business and describe some of the usual methods of publicity adopted by Indian business men indicating briefly the merits of each.
(B. Com., Cal., 1946).
19. What are the requisites of good copy for a magazine advertisement? Draw up copy for an advertisement in a magazine offering for sale an article in the production of which you are interested.
(B. Com., Agra, 1943).
20. What are the requisites of good salesmanship and efficient advertising? Draft a specimen advertisement for the foreign press on behalf of a Benares Silk House.
(B. Com., Agra, 1947).
21. "Money spent on advertising is wasteful." Do you agree? Give reasons for your answer.
(B. Com., Bombay, 1947).
22. A glass manufacturing company has been recently started under good auspices. How should it, in your opinion, arrange for the publicity of its products?
(B. Com., Agra, 1946).
23. Modern advertisement has made the luxuries of yesterday the necessities of to-day. Comment on this statement, giving suitable examples in support of your answer.
(B. Com., All., 1938).
24. What points should the advertisement of a life insurance office bring out in order to induce the public to become its policy-holders?
(B. Com., Bombay, 1941).
25. Examine carefully the principles of effective advertising and suggest methods by which an advertisement may be made to appeal effectively to an illiterate public.
(B. Com., Bombay, 1943).
26. What do you understand by Publicity? How far does it differ from Advertising? Discuss what is meant by Scientific Advertisement.
(B. Com., Cal., 1951).
27. Apart from newspapers, what other forms of advertisement would you adopt for popularising the sale of milk-powder? (B. Com., Cal., 1952).
28. "It pays to advertise." Do you agree? Justify your view by specific reasons.
(B. Com., Cal., 1953).
29. Prepare the 'Copy' of an advertisement for popularising the sale of "Vanaspati" popularly known as vegetable ghee.
(B. Com., Cal., 1955).
30. 'Money spent on advertising is wasteful.' Do you agree? Give reasons.
(B. Com., Cal., 1956).
31. Is there really any utility in advertising? Explain very clearly.
(B. Com., Cal., 1957).

CHAPTER XI

FACTORY ORGANISATION, COST ACCOUNTS AND RATIONALISATION

General

The industrial economy is based on factory organisation. Industrial production is made in factories on the basis of large-scale production.

Factory organisation consists of two sections:—(a) one dealing with the technical side and another (b) with the commercial side.

Commercial side consists of sales organisation, helping sales of products at profitable prices, and of buying organisation for buying raw materials at cheap rates. Business success depends on salesmanship. Profits of an industry are related to the capacity of organising sales on favourable terms. Industries make sales by appointment of expert sales manager who works through the salesmen.

The technical or works side of a factory is organised by experts who work through a hierarchy of skilled engineers and technicians.

Location

The location of a factory is important. The selection of a site is influenced by many factors. It should be near the source of power, such as coal or water-power, although the development of electricity and nuclear energy has reduced the importance of this factor. A factory should be near sources of labour supply. In India, labour supply is complex. There is no industrial working class as in western countries. The factory worker is quasi-industrial. Most of the workers are available for a part of the year only. They migrate to villages during harvesting time. So industrialists must be careful in selecting sites of factories. A factory should be so built that it may expand further if expansion is needed. The site should be near sources of raw materials. The location of a factory should give maximum advantages at minimum costs.

A city is likely to be a convenient site. But rents, taxes and prices in cities are high so they are not preferred by business men.

Suburban areas are preferred. They are not far from the cities. They are cheap, and taxes are low. Many jute mills, cotton mills and factories have therefore been built in suburban areas of Calcutta and Bombay. The cheapness of transport and electricity have made country sites popular. In the country side it is possible to build factories according to modern ideas of health and hygiene. For example, the Bata Shoe factory, the Dunlop Rubber factory, etc., have been built in country areas.

Lay-out

Factory planning has been improved. Factories are planned on scientific lines. They are not crowded in one small place. The present idea is to lay a factory on an extensive area. A factory is spread out and consists of several factories, as it were, spread over a large area and providing quick inter-connection. Although different processes are distantly situated, efficient inter-communication is provided. Manufacturing processes are conducted from one stage to another without difficulty. Extensive lay-out results in healthy and sanitary conditions.

For building purposes, factories are classified into two categories, namely, (a) continuous industries, where a finished product is manufactured out of the same raw material through various processes and (b) assembling industries, where many finished parts are manufactured separately from different raw materials, and then they are put together for making a final product as in the case of motor cars. Continuous industries may be either (a) *synthetical*, if raw materials are repeatedly worked from one process to another until the final product is obtained as in the case of *piece-goods*, or (b) *analytical*, if different finished products are made as the raw material passes from one process of production to another as in the case of sugar. Sugar is manufactured from sugar-cane and molasses are made as a by-product.

In building a factory, attention should be paid to the quality and quantity of the product. In the case of assembling industries, a factory should be built in scattered workshops, in which different parts will be manufactured. A *synthetical* industry is suitably housed in a factory, consisting of one single large floor, while an *analytical* industry requires a building with several storeys, each storey being concerned with one process of manufacture.

Planning and Progress Departments

The technical side of factory organisation consists of many departments. Production is first planned. Every process is minutely scrutinised, and planned so that wastage is eliminated. The planning department allocates to individuals the work or part of the process to be made. It should see that all workers are fully utilised.

Factory work is entrusted to an executive who is called *Works Manager*. He is responsible for working of a factory. He works through various departmental heads, each of whom is entrusted with a particular department or process of work. They are known as *Foremen*. A *Foreman* is the head of a particular section. He works under the general direction of a Works Manager. A foreman supervises directly the work of ordinary workers. He sees that work is done with maximum efficiency at minimum costs. He must see that every worker is put on the right job. He must induce every worker to do his best. He must take care to avoid waste. He must try to get work done according to schedule, avoiding over-time. A foreman must keep workers at the highest pitch of efficiency.

The work of the planning department will be of little value if care is not taken to see whether all plans are properly implemented. The *Progress Department* is entrusted with the task of supervising whether the plans are being duly executed. The Progress Department keeps a constant record of work done by means of job cards, material charts, etc. It can advise at any time about the progress of any job or process.

There is a *Stores Department*, under the control and supervision of a *Storekeeper*. He must properly stock raw materials at minimum expenses, and pass them to various departments. He must store finished goods carefully and despatch them for sale.

The *Commercial side* of a factory is entrusted to a *Sales Manager* or a managing director. There are various departments, e.g., Sales, Purchase, Advertising, Accounts, Costing, Statistical Departments in a business house.

The Sales Department sells manufactured goods under favourable circumstances. Markets must be properly studied. Prices should be determined in such a way that maximum gains

are obtained. Price-fixing data and materials are supplied by Costing and Statistical departments.

From Production to Selling

A good business man will take care to make sure of his profits before launching production at his factory. The output needs to be well planned according to requirements. At first a forecast of the demand has to be met and then to plan production. The output during a year will have to be spread proportionately over all months in order to ensure the optimum use of the installed capacity. In addition to forecasting the demand, the manufacture must also be planned in line with the available supply of raw materials, power, transport and coal.

The process of production in a factory passes through various stages. In order to ensure the smooth running of the factory, the different departments concerned must act in a co-ordinated manner. The factory as a whole must function as a team.

It is essential that the necessary raw material be abundant in time and reasonable prices are paid for it. The purchase of raw materials for a factory is an important work which can make a great deal of difference to the profitability of the concern. When raw materials are available in sufficient quantities the problem is probably much simpler. Even in such cases, the Purchase Officer of the factory will have to give great attention to buying the raw material at the cheapest possible price. In the case of agricultural raw materials the supply is seasonal in character and fluctuations are wide. A shrewd buyer must have the necessary foreknowledge about the market trend. He must make a correct decision as to when and how much to buy.

At present in India the function of raw material buying has become much more difficult than before due to the fact that a large portion of raw materials for many industries has got to be imported. How much a factory will be able to import is dependent on the Government giving the necessary foreign exchange for the purchase of raw materials.

When the factory produces goods, there must be suitable arrangement for inspection in order to find out whether the products have been made according to specification. A thorough scrutiny of end-products contributes greatly to the satisfaction of

customers, which is essential in the long-term interest of a business.

A factory must also ensure that all goods are properly packed. Good packaging not only helps maintain the quality of products intact; customers also like it because storing goods become easier.

An important function of a good factory is to have first-class store-keeping. As stocks of manufactured goods and raw materials are necessary in factory production, the management must concentrate attention on maintaining stocks in such a manner that goods are not only stored in proper condition, but they should also be just adequate for requirements. As inventories involve financing, the greater the stocks the bigger requirements for finance. A good management will therefore keep inventories at bare requirements. The modern business practice is to find out scientific measures by which a business can keep stocks of manufactured goods and raw materials near its requirements.

A modern factory is required to maintain efficient Personnel and Legal Departments. The importance of the Personnel Department is steadily growing due to the realisation that unless the workers of a factory are satisfied, it is not possible to obtain the optimum output per man-hour. At present a modern factory usually entrusts the work of looking after the workers in the hands of the Personnel Manager. Their conditions of service, such as wages, provident fund, medical benefits and welfare measures, are generally left in the charge of the Personnel Manager. As Indian labour laws have become very complicated, it is not possible to manage workers unless the Personnel Manager possesses the necessary technical knowledge.

Labour apart, there is need for keeping a Legal Department in a modern factory. The working of an Indian industry is now subject to various restrictions of the Government, right from its inception to the production of a factory. Many statutory obligations have to be fulfilled before a factory can start producing. It is necessary to abide by many Government regulations in the process of production. Even the selling of many products is regulated by the Government. In fact, the prices of many goods, such as iron, steel, sugar, cement and paper, have been statutorily regulated.

Management Accounting Service

The importance of the accounts department is steadily growing. In addition to its usual function of book-keeping in an accurate and efficient manner, the department is of immense help to the management in various ways. In modern business administration a term has been invented which is called management accounting. Management accounting means the provision, analysis, reporting and discussion of accounting information as a guide to the management in the day-to-day running and future planning of the business, as distinguished from the recording part of the accounting function for historical and statutory purposes. The sheet-anchor of the accounting service is the annual estimate and budget for the coming year. It forecasts sales, production, capital expenditure, marketing, advertising and administration expenses, leading on to profit yields on capital employed and a cash flow prediction. The information given by the accounts department to the management is of great value in formulating plans for the future. The management accounting service usually sets the standard by which performance is judged. No forward looking management can afford to ignore the useful advice of the accounts department in conducting the affairs of a business under modern competitive conditions.

The management accounting service is sometimes sub-divided into responsibility accounting, marketing accounting and development accounting. Responsibility accounting means the service which is given to the management by the accounts department in formulating plans for the future. The marketing accounting service is used to adjust marketing conditions in order to ensure the maximum profitability of the products concerned. Development accounting is concerned with providing the management with information concerning a new project which is to be undertaken.

Cost Accounts

The function of cost accounts is to provide such an adequate classification and analysis of expenditures that the total cost of a manufactured article can be ascertained with reasonable accuracy, and it helps to know how the total cost is constituted. It records in accounts the amount of labour, materials used and other

expenses used for a particular job, or a contract and enables a manufacturer to find costs of a particular unit or of a contract. No confusion should be made between cost accounts and financial accounts, although the same data are used in preparing both. Financial accounts reveal total profits or losses of works, while cost accounts point out costs of a unit or of a contract.

A unit refers to a definable amount of production in terms of which cost and price are understood, e.g., cost per ton, cost per maund, etc.

A cost accountant has an important role to play in industrialisation. The function of a cost accountant is not merely to compile the cost of production, he should also assist in ensuring that costs are reasonable. He aims at giving cost figures which are 'live' and not historical. He analyses day-to-day activities of a factory ; he points out where leakages of manpower or materials are taking place, where over-expenditure may be avoided, where extravagance exists and where extra expenses are justified. A cost accountant helps shape actual costs as they are incurred, and he indicates the direction in which further expansion of activity should take place. He uses comparative costs for advising whether a particular line of activity will be profitable and whether a particular type of plant or machinery will be used. He uses standard costs and other methods of cost control for testing whether commodities are produced economically. He introduces budgetary control to discover waste and extravagance in daily running of a factory. The assistance of a cost accountant is important for an industry at every step. He is indispensable for planning and production.

Object of Cost Accounts

A system of cost accounts enables a manufacturer to estimate total costs, including both primary and indirect charges of a unit of production, or of a contract. It enables a manufacturer to (a) find not only total profits or losses of a business, but also actual profits or losses on any particular process, department or job. (b) It helps him know how to fix selling prices for earning profits because profits are possible if goods are sold at a price higher than costs of production. (c) It enables a manufacturer to detect wastage or loss, and take proper steps to rectify the same. If a job is not paying, he can give it up, or he can improve it. (d) The

system of cost accounts provides valuable data for tendering for a contract, or quoting prices for goods in advance of production. (e) An efficient system of store and stock accounting is essential for a good system of cost accounts. An effective check is automatically provided upon stores and materials. (f) By disclosing the weakness in the manufacturing operation, it stimulates invention of new improved processes.

Kinds of Cost Accounts

Cost accounts may be of various kinds. *Terminal or Contract Cost Accounts* are used in the case of contracts, where costs are definite and terminating as in the case of buildings and ships. In railways, tramways, gas, electricity, etc. *operating or working cost accounts* are used. In industries where there is a natural unit of cost, such as per ton, per bottle, the system employed is called *single or output cost accounts*. It is found in quarries, mines, breweries, etc. Another system is known as *multiple cost accounts*, and it is applied in industries which produce a variety of goods, e.g., hosiery, furniture, shoes, etc. and it is used in the case of articles which have no relation with one another concerning costs or selling prices. Business having various departments for different processes by which production is made, employs *process cost accounts* for finding costs of each process.

Classes of Costs

Prime cost includes costs of labour, raw materials and charges, such as carriage inwards, freight, dock dues, etc., which are directly incurred.

Works oncost includes (a) rent, taxes, rates, premium paid for insurance of factory, (b) power, fuel, gas, water, lighting and heating, (c) patent fees and royalties, (d) indirect wages of store-keepers, firemen, enginemen, factory clerks, superintendents, managers, etc., and (e) repairs, renewals and depreciation of plant, machinery, tools, land and buildings.

The total of *prime costs* and *works oncosts* represents the cost per unit of production.

The term *flat cost* is used to mean the cost of labour, material, including direct expenses incurred.

"Overhead", "fixed" or "establishment charges" incurred in

production signify indirect expenses of production and as they include prime costs they represent the total cost of production.

The total cost up to the point of selling may be found by adding to the cost of production office expenses, viz., (a) rent, rates, taxes, premium paid for insurance of office, shops, warehouse, etc., (b) lighting, heating, taxes, (c) commission paid to agents, brokers, salesmen, etc. (d) carriage outwards, packing materials, printing, stationeries, advertisement, (e) salaries of staff including fees paid to directors, etc., (f) bad debts, discounts, (g) interest on capital, loans, debentures, etc., and (h) depreciation of furniture, fittings, fixtures, etc.

The selling price is fixed by adding to the total cost a certain percentage of profit in the following manner—

| | | | |
|--------------------------|-----|-----|---------|
| Direct wages paid | ... | ... | Rs..... |
| Material used | ... | ... | Rs..... |
| Prime Cost | ... | ... | Rs..... |
| Add Works Oncost | ... | ... | Rs..... |
| <hr/> | | | |
| Add Office Expenses | ... | ... | Rs..... |
| Total Cost | ... | ... | Rs..... |
| <hr/> | | | |
| Add Percentage of Profit | ... | ... | Rs..... |
| Selling Price | ... | ... | Rs..... |
| <hr/> | | | |

It is the duty of a cost accountant to find direct wages paid and materials used on a particular job, and he adds a portion of indirect expenses which every job or a contract must bear.

Oncost

Oncost is a technical term used in cost accounts and it denotes expenses which cannot be directly charged to the unit of work done or contract executed. It means indirect expenses or costs of production other than prime costs.

It is the duty of a cost accountant to apportion to all units of production such indirect expenses which should be taken into consideration for estimating the total cost of production. The apportionment of indirect expenses is not easy and various methods have been devised for helping a cost accountant.

The practice of *fixing one percentage to cover all direct and indirect expenses* is rather unscientific, because under this system works done by superior and inferior machinery and tools bear the same proportion of costs.

Under the *machine-rate method*, a fixed amount is charged for each hour, or a similar unit for which the machine or tool is used.

The *hourly-burden plan* estimates expenses first; then they are divided over number of hours worked. The system does not distinguish between expensive and cheap tools or machinery.

The method of charging a certain *percentage to wages* is common, although it is applied more accurately when wages constitute a large portion of total costs.

The system of charging *varying rates for different items of expenditure* is widely practised. Expenses, such as rent, taxes, lighting, etc., are charged and apportioned according to floor space, occupied by each workshop. Expenses, such as gas, electricity, water, etc., are charged according to metre or horse-power.

Factories charge *factory oncost and general oncost* separately. The factory oncost includes manufacturing expenses. General oncost includes administrative, selling and office expenses. In estimating factory oncost, calculation is based on labour or material, or both. Since material is a variable quantity, it is usual to base calculations on labour.

Advantages of Cost Accounts

Cost accounting keeps a correct record of raw materials used in production, and if there is any waste during manufacture it is detected. It keeps a record of labour engaged. Wastage of labour is reduced to a minimum. It lays down a standard for methods of manufacture. The manufacturer knows costs of products, and he is able to decide how far he can reduce selling prices. He is able to find goods which are profitable, and he asks his salesmen to increase the sale of such goods. Valuable information is provided for adjusting prices according to costs.

Budgetary Control

The financial and fiscal policies of a Government are regulated by means of a budget. The advantage of budgeting is that expenditure and income are planned ahead. The usefulness of

budget is being felt in business. It is claimed that budgeting will help business being transacted according to a plan. In business a budget means the planning of operations for a specified period. Activity will proceed on the basis of a plan, and periodical checks will be made upon the progress which is made by making references to previous records and performance.

As business is complicated, it is not possible to make a business budget in a rigid way. It is neither possible to have an overall budget for the business as a whole, as in a business separate departments should frame their own budgets. All the budgets have to be co-ordinated later for giving a broad picture of business.

A business budget consists of the following subsidiary budgets namely, sales, production, financial, manufacturing, physical property, raw materials, supply, labour and research budgets.

If business is conducted on the basis of a budget, it helps business managers to assess the progress from time to time. This assists them for making changes in time, if required.

In business a sales budget should be made carefully. The sales budget should indicate the volume of sales turnover which a business is expected to reach during a period. Business managers will arrange their sales programme accordingly. The production programme will be planned to fit in with the sales plan. The purchase of raw materials, stores, etc. will be adjusted in accordance with the sale and production plans. Labour will be engaged in such a way that output may not suffer. Finances will be arranged on the basis of requirements.

Questions

1. Sketch the departments into which the organisation of manufacturing establishment may be divided and explain the necessity of seeing that there exists a proper correlation between these departments.
(B. Com., Lucknow, 1958).
2. Clearly sketch the internal organisation of a manufacturing industry.
(B. Com., Lucknow, 1960).
3. What is the importance of costing in manufacture?
(M. Com., Cal., 1957).
4. On what lines would you organise a manufacturing business?
(M. Com., Cal., 1949).
5. How would you differentiate and allocate "indirect wages" to the different processes of manufacturing business?
(B. Com., Cal., 1956).

6. Define the term "Factory Oncost", "Office Oncost" and explain why their allocation to final cost is a difficult affair. (B. Com., Cal., 1934).
 7. What is the utility of Costing Department in modern industry? (B. Com., Cal., 1936).
 8. Explain how the Foreman acts as the connecting link between the Workmen and the Works Manager. (B. Com., Cal., 1935).
 9. Rationalisation is the keynote of modern production. Discuss.
 10. What are the aims and objects of the present day movement called "rationalisation of industries"? (B. Com., Bombay, 1961).
 11. What do you understand by Scientific Management? Is it different from rationalisation? Explain clearly. (B. Com., Agra, 1960).
 12. What is meant by "Scientific Management?" Explain its principal features. (B. Com., Cal., 1947).
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CHAPTER XII

WAGE PAYMENT AND TRADE UNION

General

The payment of wages is an important item of industrial disputes. Employees think that workers are paid legitimate wages but workers feel that they are paid less than they deserve.

In theory, wages are determined by the supply of and demand for labour. The former is influenced by costs, i.e., the standard of living, costs of training, and similar other factors. The demand for labour is determined by marginal utility or productivity.

In practice, it is not possible to apply the theory fully. Various systems of wages are aimed at fixing wages at an equilibrium point between marginal utility and marginal productivity.

Time Rate

In the time rate system of wage payments, workers are paid according to the time spent on a work, e.g., a daily worker is paid eight annas for a day's work, and a clerk is paid Rs. 50 for a month's work.

The system ensures stability and regularity of wages. In this method, it is difficult to distinguish between superior and inferior workers. An inefficient worker may benefit by getting mixed up with good workers.

There are occupations in which quality of work is important, or where individual tastes and fashions are to be met. Time rates are common in such cases, otherwise quality may suffer. Supervisory or managerial work must be paid on time basis, as the work is difficult of exact measurement.

Price Rate

If workers are paid according to output, it is possible to assess costs of labour per unit of output.

The system is based on a standard output which must be scientifically fixed for avoiding injustice to workers.

A worker is paid per unit of output. Wages are therefore determined by efficiency. A worker earns more by doing extra work.

Piece rates are resisted by trade unions as they allege that the method encourages extra effort among workers and health is affected. By differentiating between co-workers concerning incomes it encourages rivalry among workers, and endangers solidarity of trade unions. Wages depend on quantity of work. If strict supervision is not made, it may encourage "scamped" work. As income of workers will vary according to output, it encourages irregular earning and extravagance.

Taylor Differential Piece Rate

Mr. Taylor, exponent of 'scientific management', advocated the differential piece rate by which an efficient worker is paid a higher piece rate if he finishes the standard task, or if he does more work within an allotted time. A worker has to accept a lower piece rate if he fails to complete the standard job within a fixed time. The system claims to obtain considerable economies in operation. Mr. Taylor emphasised that the system should be practised after standardising shop conditions, including time study. The system is designed to provide additional incentives to efficient workers.

There may be more than two differential rates of payment. For example, under the Merrick Multiple Piece Rate Plan there are three graded piece rates. If a worker performs less than 83 per cent of the set task, he is paid less than the standard rate, if the work fluctuates between 83 and 100 per cent. he is paid the standard rate and the highest rate is paid if the standard task is completed.

Despite theoretical advantages claimed for the system, it is no longer practised as the trend is towards paying equal wages to the same kind of workers.

Bonus System

Bonus systems combine advantages of time and piece rates without their drawbacks. They adopt standard wages, based upon standard output in standard time, and they provide increased remuneration according to efficiency. An extra payment is based

on a diminishing scale, so that "scamped" work is avoided. Workers do not therefore overstrain themselves, nor do they tamper with quality. They know that their extra reward will decrease steadily.

Premium or bonus system fixes a standard time for completing a job on a fixed wage. They fix a rate or percentage, by which bonus is paid to a worker over the fixed wage if standard time or standard output is exceeded. An efficient worker is therefore assured of a higher payment in addition to his "day rate" which is fixed and guaranteed. For example, if a workman's time rate is fixed at Rs. 3 per day of 8 hours and if a job is scheduled to be completed within 3 days, the piece-work rate, computed by a rate-fixer is Rs. 9. If a worker completes the job within 2 days, he receives his "day rate" wages of Rs. 6 plus, half time saved, which is equal to Rs. 1-8. A total wage of Rs. 7-8 is therefore paid. Wage cost of the job which is estimated by the rate-fixer at Rs. 9 adds up to Rs. 7-8, but the worker earns a higher day rate, viz., Rs. 3-12 per day. It, therefore, means that the employer shares in benefits, resulting from reduction in cost of wages. Compared with piece systems, bonus or premium systems confer the benefit of time saved upon an employer. It is argued that this is justified as higher efficiency is partly due to efficient organisation, combined with the availability of modern equipment. The method of fixing standard time varies for different concerns. The principle of bonus or premium systems is to give incentives to workers for producing maximum output. The systems differ in setting standard time, methods of calculating bonuses and proportions in which saving of time is shared between workers and employers. Interests of workers are assured as they are guaranteed the usual "day rate". Although the systems are open to dangers of wastage of materials as workers are anxious to work hard and produce more. This can be checked by introducing efficient inspection.

In a bonus system, workers earn bonuses by means of efficiency. In a profit-sharing system workers' extra remuneration depends upon profits.

Two bonus systems, such as the Halsey and Rowan systems are popular. The Halsey system originated in the United States of America and the Rowan system is a modified application of the Halsey system as found in Great Britain. The Halsey scheme makes wages high, but the Rowan system scales wages down. The latter is, however, more liberal in the initial stage. The Rowan

system ensures the premium rate, which is paid by an employer if worker's efficiency exceeds a certain limit.

Both systems adopt a standard time for a particular job. If the work is done on time, standard wages are paid. If a worker takes longer time on a work, his time rate remains intact, as both systems guarantee a fixed time rate. If a workman finishes his job earlier than the usual time, his extra reward for the time saved on the work is regulated in different ways by the two systems. The Tata Iron and Steel Company and the Jay Engineering Works and the Indian Aluminium Company are experimenting with bonus systems and results so far are considered satisfactory.

Halsey Premium Plan

In the Halsey Premium Plan a standard time is fixed for each task and a minimum wage is guaranteed to every worker, whether he finishes a task within time or not. If a worker is able to complete a task earlier, he receives a premium, or a bonus fixed at a certain percentage of the time saved in addition to the minimum wage. For example, if 8 hours is the 'standard time' for a job and Rs. 4 is the guaranteed day wage, a worker receives Rs. 4 if he takes 8 or over 8 hours for the task but if he performs the task in less than 8 hours he receives an extra premium in the following way.

| | | (Premium: Half the time saved). | Total wages. |
|-------------------------------|--|------------------------------------|--------------|
| If job is done in 6 hours ... | | 0 10 8 | 4 10 8 |
| " 4 " ... | | 2 0 0 | 6 0 0 |
| " 2 " ... | | 6 0 0 | 10 0 0 |
| " 1 " ... | | 14 0 0 | 18 0 0 |

In the above example, the premium has been calculated at half the time saved but it can be fixed at any percentage. The calculation is given below:

$$\begin{aligned} & \frac{1}{2} \text{ of } \frac{2 \text{ (Time saved)}}{6 \text{ (Time taken)}} \times \text{Rs. 4 (Day wage)} \\ & = \text{Rs. } \frac{4}{3} \text{ or Rs. 0-10-8.} \end{aligned}$$

The plan does not assume a change in the shop methods. It can be fitted with unstandardised conditions.

Rowan Premium Plan

The Rowan plan does not interfere with the existing conditions of management and operation. The premium is calculated on the proportion which time saved bears to the standard time. A minimum wage is guaranteed to every worker as in the Halsey scheme. For example, if 8 hours is the 'standard time' for a job and Rs. 4 is the day wage, the premium and the total wage will be calculated in the following way:—

| | <i>Premium.</i> | <i>Total Wages.</i> |
|-------------------------------|-----------------|---------------------|
| If job is done in 5 hours ... | 1 0 0 | 5 0 0 |
| " 4 " ... | 2 0 0 | 6 0 0 |
| " 2 " ... | 3 0 0 | 7 0 0 |
| " 1 " ... | 3 8 0 | 7 8 0 |

In the plan the premium cannot exceed the day wage and the total wage cannot be equivalent to twice the day wage. A worker who finishes the work in 6 hours saves 2 hours. His premium is, therefore, calculated in the following way:—

$$\text{Premium} = \frac{2 \text{ (Time saved)}}{8 \text{ (Standard time)}} \times \text{Rs. 4 (Day wage)}$$

$$= \text{Re. 1.}$$

Gantt Bonus Plan

The Gantt Bonus Plan—which is known as 'Task and Bonus Plan'—is based upon the Taylor differential piece rate. The system aims at a standard output under best possible conditions and it, therefore, implies standardisation of shop conditions. In the words of Mr. Gantt, "If a man follows his instructions and accomplishes all the work laid out for him as constituting his proper task for the day he is paid a definite bonus in addition to the day rate which he always gets. If, however, at the end of the day he has failed to accomplish all the work laid out, he does not get his bonus but simply his day rate. The employee is not told in a general way to do better, but has a definite standard set for him and is shown how to reach that standard for which he is awarded compensation in addition to his usual day's pay." The system emphasises the proper training of workers and presupposes ideal conditions of work. The standard work is set fairly high to prevent

sharp rises in wage costs. For example, the following workers are engaged on similar tasks. The day-rate is fixed at Re. 1 per hour. A bonus of 50 per cent on time taken is fixed for those who complete the task within 6 hours. A has taken 7 hours, B 6 hours, C 5 hours, and D 3 hours. Each of them will receive bonus in the following way:—

| Workers | Time taken (hours) | Day-rate Wage or Minimum | Bonus | Total received | Total rate per hour |
|---------|--------------------|--------------------------|-----------|----------------|---------------------|
| | | | Rs. A. P. | Rs. A. P. | Rs. A. P. |
| A | 7 | 7 | Nil | 7 0 0 | 1 0 0 |
| B | 6 | 6 | 3 0 0 | 9 0 0 | 1 8 0 |
| C | 5 | 6 | 2 8 0 | 8 8 0 | 1 11 2 |
| D | 3 | 6 | 1 8 0 | 7 8 0 | 2 8 0 |

The system suits efficient workers but every worker is guaranteed a minimum wage. The principal disadvantage is that ambitious workmen try to earn a bonus but others remain satisfied with the guaranteed daily rate. The unit cost per piece produced is low but it is higher than in other systems as a guaranteed daily rate is ensured.

Emerson Efficiency Bonus

In the Emerson Efficiency Bonus system a daily rate is guaranteed. The bonus is calculated by adding to the standard time 20 per cent of time taken, multiplying by an hourly rate, and it begins at 66.6 per cent of normal output. Its principal disadvantage is that there is no special incentive for standard production and that workers are inclined to be satisfied with a guaranteed rate. It is a mild form of incentive payment and it can be used as an intermediate step in a move towards more advanced systems. It is good as it pays attention to time saved. The unit cost per piece produced is low but the expectation of a low cost is not always realized.

Profit-sharing System

Workers complain that they do not participate in profits. In order to meet the grievance of workers, and reduce chances of

industrial friction between capital and labour, a profit-sharing scheme has been devised. In the system workers are given a share in profits. Many industries in India, such as the Tata Iron and Steel Works at Jamshedpur and The Indian Iron and Steel Company at Burnpur have introduced the system by giving bonus to their employees in line with profits.

As workers are given a share in profits, they take interest in work, their efficiency is increased, a careful use of materials and machinery is made, less supervision is required, and workers try to reduce costs of production so that larger profits are made.

The Trade Union movement is opposed to the scheme as it stamps a unit with distinctiveness. By associating workers with profits it encourages a narrow and selfish outlook.

Workers' extra remuneration, under a profit-sharing system, is obtained after a long period of waiting. It is uncertain and irregular.

The disadvantage of the system consists in the absence of control of workers in management, with the result that profits may not accrue even if workers are efficient. In order to remove such a defect co-partnerships have been found.

The profit-sharing systems have a number of difficulties. Profits vary from industry to industry and from unit to unit. If one unit of production distributes a big share of profits to workers, it affects workers of a losing unit. Profit-sharing systems make remuneration of workers unequal, uncertain, unstable, and they create disunity among workers.

In a number of Indian industries workers are given a share in profits but the method of payment rests on an ad hoc basis and it is not based on a scientific principle. For example, workers are paid a bonus half-yearly or yearly and it is broadly related to profits.

There are a number of difficulties in such a system. Firstly, the amount of bonus is fixed industrywise. As a result many units which incur a loss are obliged to pay a bonus. Secondly, as bonus is not related to efficiency the system does not encourage good workers.

There are a number of progressive industrial units, such as the Tata Iron and Steel Company, The Indian Aluminium Company, The Indian Iron and Steel Company and the Alkali Corporation of India, which have adopted modern methods of wage

payment. Apart from paying a standard wage to each worker, individual efficiency is rewarded by paying extra remuneration which is based on productivity. The extra payment which is paid to a worker is related to his extra work as a result of superior efficiency. The productivity bonus encourages efficiency.

Co-partnership System

In co-partnership scheme an arrangement is made for giving workers a voice in management. Workers' share in control is given by various methods. For example, workers may be given a shareholding right in a concern. The Tata Iron and Steel Works are trying to associate workers in control and management by such means. The difficulty of allocating profits to co-partners, the delay in the distribution of profits, and the small amount of profits distributed are the main disadvantages of the system.

Sliding Scale

In a sliding scale system a standard wage is fixed for a standard output and changes in wages are correlated either to changes in the cost of living, or in the selling prices of the commodity. If wages vary according to sale prices workers and employers will try to keep costs of production high for maintaining high prices. So the system is uneconomic.

If wages are related to costs of living, it is difficult to apply the system as it is not possible to make a correct cost of living index number in respect of workers.

Minimum Wage

In the United Kingdom a minimum wage is found in "sweated" trades, such as chain-making, lace-making, etc. It is also found in agriculture and mines. No employer in such trades can pay employees a wage which is less than the minimum as fixed by law.

In India minimum wages have been accepted in principle and moves have been taken for implementing them in practice by legislation. The Minimum Wages Act authorises the Government to enforce the application of a minimum wage in industry and agriculture. The Government proposes to introduce it in a

number of specified industries, such as cotton, textiles, jute, cement, paper and sugar. It is also proposed to apply the Act in respect of agriculture.

In principle there can be no objection to minimum wages so long as productivity of workers is increased. If output is not equivalent to wage, chances are that business will become unprofitable. A business man is not expected to remain in business, if it means loss for him.

This apart, the application of minimum wages in industry as well as agriculture is likely to meet with many practical difficulties. For example, conditions of industry and agriculture vary from area to area. Even in the same industry many units have varying conditions of work. So it is not possible to formulate a national minimum wage in India for industry or agriculture. If minimum wages are to be implemented it is necessary to investigate the conditions of industry and agriculture carefully and formulate separate minima as circumstances require.

Scientific Management of Labour

Taylor's system of wage payment is closely related with *scientific management of labour*. The system is based on labour management according to scientific principles. It consists of (a) time study, (b) motion study and (c) fatigue study. Each process of work is scrutinised scientifically, the cost of each process is examined carefully and improvement is suggested if required. It studies how much time a worker takes to do a job and it finds out how many motions are made by a worker for finishing a work. A scientist suggests improvement if required. He recommends how a worker can improve his efficiency with tools and machinery. Scientific management of labour, therefore, leads to a scientific payment of wages. It establishes a standard rate of wage for work done by a worker within a certain time. If a worker can finish it in a shorter time, he is paid an extra remuneration. A system of scientific management of labour aims at obtaining maximum efficiency of labour. In order to facilitate the work of scientists, industries provide them with suitable laboratories for research. Various industrial research institutes of Governments aim at discovering suitable methods by which efficiency of labour may be increased.

The idea is to base wage systems on a scientific basis. If wages are scientifically adjusted, and changes in remuneration follow efficiency automatically, discontent about wages will diminish.

A scientific system is used for selecting a worker. Scientific tests have been found and they help select the right type of workers for a job. By means of psycho-analytical processes, it is possible to find aptitudes and inclinations of an individual. The system of selecting new entrants on a scientific basis is practised in the United States of America.

Collective System

A group of people may finish a work within a particular period and they may be paid under a group time rate system. A group of workers undertake to finish a work and they are paid collectively. Individuals in the group are paid according to an arrangement which is made among themselves.

The Family Endowment System

An increase in wages or promotion may be given according to the number of the members of a family. It is an inequitable system, as it is not related to economic conditions. It encourages marriage. It removes from bachelors the incentive for work.

Productive Co-operation

In productive co-operation workers supply capital and manage production. Profits are earned by workers. The system has not made much headway and it is found generally in small industries.

System followed in India

In India time and piece systems as well as bonus systems are found.

Wages are paid for a week or a month. In the case of monthly wages it is paid usually on fifteenth of a current month, so fifteen days' wages are kept on hand. Weekly wages are paid by keeping on hand one week's wages. Employers keep a portion of wages on hand to prevent a worker from leaving work suddenly.

In India a weekly system of wage payment is preferable to a monthly system. If workers are paid once a month, they find it difficult to regulate expenses over a month. They buy their requirements on credit and they run into debts. If workers are paid weekly wages they buy goods for cash. Although workers may dissipate money on Saturday (which is usually the pay day) on drinks, cinemas, etc., some checks may be given by changing the pay day to a week day.

Enlightened Indian employers, such as the Tata Iron, Indian Iron, Indian Aluminium and Dunlop Rubber, have adopted the productivity bonus system of wage payment. Under it a standard wage is guaranteed to each worker. In addition to this, he also earns a bonus which is related to his productivity. The move ensures efficiency and contentment among workers.

Labour Participation In Management

In India labour participation in management is accepted in principle both at official and management levels. It is stated that if workers are taken in confidence and if they are allowed to participate in management, there is a prospect that industry will be assured of smooth working. If workers take part in management, they will have little ground for grievances. As a result of workers' co-operation in production it is possible that productivity will improve.

In the Tata Iron and Steel Company labour participation in management is being tried by forming Works Committees. The latter consist of representations of management and workers. Important matters in respect of production and labour are referred to the committees. Their deliberations and decisions are sent to management for implementation.

An important advantage of the method is that workers will feel that they constitute a part and parcel of industry. So they are expected to take greater interest in production. As a result of labour and management co-operation it is possible that a number of disputes will be eliminated.

Trade Union

A trade union denotes an association of workers for safeguarding their interests. It is formed with a view to protecting

their economic interests. Workers join a trade union for the purpose of bargaining collectively with employers in respect of wages, terms and conditions of work. As employers are financially stronger than workers, a trade union proves a helpful organisation for workers in respect of negotiations with employers.

A trade union performs a number of ancillary services for the benefit of workers. It organises unemployment, sickness and other benefits for them.

A trade union has political work. Workers' political rights are represented by trade unions. If trade unions are organised on regular lines, they are useful. If a trade union gives a correct lead to workers, the smooth working of industry can be ensured. It could help increase labour productivity by encouraging initiative and efficiency.

Strike

Trade Unions may bargain with employers either peacefully or by coercive methods. When the former method fails, Trade Unions resort to strikes. A *strike* is found to be a very effective weapon as a bargaining counter. A strike means stoppage of work by a body of persons employed in trade or industry, or it may refer to combined refusal of a number of individuals who are employed to continue to work. A strike is likely to lead to temporary suffering and loss to employers and workers, and economic wastage is involved by cessation of work. In order to make a strike successful, workers must be in a strong position. Workers must have sufficient financial resources to tide over difficulties during the period of a strike, when they do not earn wages. There are recurrent failures of strikes in India, where the trade union movement lacks financial strength. Consolidation and solidarity are essential for a successful strike. They are not highly developed in Indian labour ranks. As a strike is not a desirable thing, disputes between labour and capital should be settled by peaceful means, and Governments of all countries have introduced several institutions for amicable settlement of trade and industrial disputes.

In order to mitigate the severity of a strike, it is begun after a due notice. A notice is legally enforced in some countries. When a strike is started suddenly, it is known as a *lightning strike*.

Lock-out

As a move against a strike, employers use a "lock-out". It means closing a place of employment by an employer, or refusal to employ a group of individuals in work, as a result of a dispute between an employer and workers. This is adopted by employers to coerce workers, or force workers of fellow employers to accept their terms and conditions of work. A lock-out, as a bargaining weapon, is generally condemned, and is rarely practised. Employers are strong enough to avoid such coercive measures.

The Trade Union Movement in India

Indian labour organisation began from early nineties of the nineteenth century. In 1890 mill-hands of Bombay formed the Mill-hands Association for supporting proposals for labour legislation. A *Trade Union*, in the strict sense of the term, was started after the first World War. During War costs of living increased, prices rose, wages were cut, working conditions became unsatisfactory, class consciousness grew among workers and they realised what trade unions were doing in other countries. Trade Unions were formed in Madras and in other parts of India. The *First All-India Trade Union Congress* was held in 1920 in Bombay. It was a joint session of all Trade Unions in India. A split occurred in 1929, and a rival organisation in the shape of the *All-India Trade Union Federation* grew up. The Trade Union Congress has consolidated the trade unions throughout the country.

As the Trade Union Congress began to be dominated by political agitators the Government of India sponsored, under their auspices, the National Trade Union Congress from the middle of 1947. The policy of the Government is to promote social security and industrial peace. At the Industries Conference held in December, 1947, employers and workers unanimously passed the Industrial Truce Resolution, pledging themselves to settle matters of disputes by amicable means without interfering with industrial production. The Government co-operates for ensuring fair wages, satisfactory working conditions, high standards of living, education, training and full employment for workers.

Indian Trade Unions Act

The Indian Trade Union Movement was legally recognised by the Indian Trade Unions Act of 1926. Under the Act, a trade union may or may not be registered. Although registration is optional, a registered union enjoys certain privileges and confers immunity on members from certain civil suits and criminal prosecution. In order to be registered, a trade union must state its name and objects. It must keep a list of members. Funds of a registered union can be spent on specified objects in the interest of members. Annual accounts of a registered union must be audited. At least half the office-bearers of a registered union must be recruited from industry. The Indian Trade Unions Amendment Act of 1947 provides for a Government scheme of training workers in trade unionism. It aims at directing trade union activities for improving workers' lot without hindering the growth of industries.

Conclusion

The Indian trade union movement is in a nascent stage. Although in many places it has made improvement in wages and working conditions, much remains to be done. It has been doing socio-economic services, such as giving death benefits, unemployment relief and friendly services to workers.

The Indian trade union movement lacks cohesion and consolidation. Workers are poor and ignorant. They have not developed self-consciousness. Leaders of the Indian trade union movement are mostly recruited from outside. They very often join hands with workers to subserve their own selfish interests. Workers have special powers and privileges in the political sphere. Their political privileges are usurped by outside elements who serve their own interests at the cost of workers. The working class must discover their own leaders from their own ranks.

Working Hours

Health and efficiency of workers are related with working hours which are therefore regulated by Factory Acts. In India, the Factory Act was passed in 1911, and it has since been amended by the Factory Act of 1934 and by Act XI of 1935. It

regulates conditions of work of children and of female labour. A child is defined by the Act to be a person under fifteen years of age. It prohibits the employment of children in a factory if such employment is considered injurious to health. It provides that no female or child can be employed in a machine if it is in motion. It is further provided that no worker should be employed on Sunday, unless he is going to have a holiday for a whole day on any one of three days immediately preceding or succeeding Sunday. The Factory Act of 1947 as amended by the Act of 1948, is based on the Factories Act of 1937 of the United Kingdom. It aims at implementing recommendations of the Rege Committee. The scope of the new Act has been widened considerably so that it will cover all working places in which ten or more persons are employed and power is used. Provisions of the Act have been extended to factories in which twenty or more persons are employed although no power is used. Working hours have been reduced from 54 hours to 48 hours a week. It provides for appointment of a Chief Adviser of Factories. His duty is to look after sanitation, housing and health of workers. The Act also provides that plans of factory buildings are to be submitted to Government for approval for preventing haphazard and unregulated growth of factories. It ensures compliance with modern standards of working conditions of health and safety.

The Indian Trade Disputes Act, 1929

The Trade Disputes Act has been passed to provide a method for the settlement of industrial disputes. It provides for the establishment of tribunals for investigation and settlement of disputes. The Act provides for tribunals to settle disputes and for Conciliation Boards which are appointed *ad hoc* to deal with disputes.

The Indian Trade Disputes Act, 1929 provides that wherever trade disputes exist, or are apprehended between an employer and workmen, or where an employer is the head of a department under the control of the Central Government, or is the Federal railway authority, or a railway company operating a Federal railway, the Central Government may, by order in writing, (a) refer matters appearing to be connected with or relevant to the dispute to a Court of Enquiry to be appointed by the Provincial Govern-

ment or the Central Government, as the case may be ; or (b) order the dispute to a Board of Conciliation to be appointed by the Provincial Government or the Central Government, as the case may be, for promoting a settlement thereof. If both parties to the dispute apply either separately or conjointly, for a reference to a Court, or where both parties apply, whether separately or conjointly, for a reference to a Board, and the authority having the power to appoint is satisfied that persons applying represent the majority of each party, the Court or Board, as the case may be, shall be appointed accordingly.

The Act defines an employer as:—

“Employer”, in case of an industry, business or undertaking carried on by a department of any Government in India, means the authority prescribed in this behalf or, where no authority is prescribed, the head of a department.

A workman is defined as:—

“Workman” refers to a person employed in a trade or industry to do skilled or unskilled manual or clerical work for hire or reward but does not include a person employed in the naval, military or air service of the Government.

A trade dispute is defined as:—

“Trade dispute” refers to a dispute or difference between employers and workmen, or between workmen and workmen, and it is connected with employment or non-employment or terms of employment, or with conditions of labour, of a person.

Courts of Enquiry and Boards of Conciliation

A Court of Enquiry should consist of an independent chairman, and such other independent persons whom an appointing authority thinks fit, or may, if such authority thinks fit, consist of one independent person. This Court may act so long as there is a prescribed quorum notwithstanding any vacancy in the number of its members other than the chairman, and may enquire into the matter referred to it either in public or in private at its discretion, reporting thereon to the authority by which the Court was appointed. The Court may also make interim reports.

A Board of Conciliation should consist of a chairman and two or more other members, as the appointing authority thinks fit, or may, if such authority thinks fit, consist of one independent

person. If the Board consists of more than one person, a chairman shall be an independent person, and other members shall be either independent persons or persons appointed in equal numbers to represent parties in dispute. Persons appointed to represent a party shall be appointed on the recommendation of their party, provided, however, that if a party fails to make the necessary recommendation within the prescribed time, the appointing authority shall elect and appoint such person whom it thinks fit to represent a party. The Board having a prescribed quorum may act notwithstanding a vacancy in the number of members other than chairman, provided, however, that where a Board includes an equal number of persons representing parties to the dispute, and services of such persons cease to be available before a Board shall appoint another person to take his place, and the procedure shall be constituted. The duty of a Board of Conciliation is to try to bring about a settlement of a dispute, and for this purpose a Board shall, in such manner as it thinks fit, and without delay, investigate a dispute. It may, if it thinks fit, persuade parties to come to a fair and amicable settlement of a dispute, and may adjourn proceedings for any period sufficient in its opinion to allow parties to agree to terms of settlement. If no settlement is reached during the course of investigation, a Board must, as soon as possible after the close of investigation, send a full report regarding a dispute to the authority by which a Board is appointed, setting forth proceedings and steps taken by a Board for the purpose of ascertaining facts and circumstances, relating to a dispute, and making a settlement of the same, together with a full statement of such facts and circumstances, its findings and recommendations for determination of a dispute.

If a settlement of a dispute is reached, a memorandum of settlement must be drawn by a Board, and signed by parties, and the memorandum and Board's report of settlement must be sent to the party by which the Board is appointed.

The object of a Court of Enquiry is to investigate, and report on such questions, connected with a dispute, referred to it. The object of a Board of Conciliation is to secure a settlement of a dispute. Both these Courts are empowered to enforce attendance of witnesses and production of documents. Reports of both parties must be published. Neither party to the dispute is, however, bound to accept findings either of a Court of Enquiry,

or the advice of a Board of Conciliation. The publication of a report, however, helps to enlighten public opinion.

A strike or a lock-out shall be illegal which:—

- (a) has any object other than the furtherance of a trade dispute within a trade or industry in which strikers, or employers locking out are engaged; and
- (b) is designed or calculated to inflict severe, general and prolonged hardship upon a community, and compel the Government of India and the Federal Railway Authority to take, or abstain from taking, any particular course of action.

The Act provides penalties for persons who declare, instigate and incite others to take part or otherwise act in furtherance of a strike or lock-out which is illegal.

The Act provides that a person refusing to take part or continue to take part in any strike or lock-out which is illegal shall not, by reason of such refusal, or by reason of any action taken by him under the Act be subject to expulsion from any trade union or society, or to any fine or penalty or to deprivation of any right or benefit to which he or his representatives would otherwise be entitled, or be liable to be placed in any respect either directly or indirectly, under any disability or at any disadvantage, compared with other members of the union or society in spite of any rules to the contrary of a trade union or society.

It is gratifying to observe that the Government has passed the Trade Disputes Act of 1947 to supplement the previous Act of 1929, which was defective in the sense that although it provided voluntary conciliation boards and boards of enquiry, the latter could not be legally enforced. The present Act aims at eliminating industrial disputes by providing compulsory adjudication of disputes through industrial tribunals. It provides for the establishment of Conciliation Boards and Works Committees, composed of labour and capital to settle mutual disputes amicably.

Social Security for Workers

The idea of social security for workers is closely linked up with the modern conception of a State. It is universally agreed that the duty of a modern State is not merely to maintain law and order

but it should guarantee to every individual citizen a minimum standard of living so that there is scope for development of an individual personality. All modern States, therefore, are adopting social security measures to eliminate want, disease, ignorance, idleness and squalor. Sir William Beveridge, the exponent of the famous social security plan in the United Kingdom, emphasised that want is only one of the five giants on the road of reconstruction, and in some ways the easiest to attack.

The scope of social security in India is great in view of the low standard of living of the masses. The Government of India, therefore, has toed line with other advanced countries and has decided to go ahead with social security measures. Professor Adarkar was appointed to investigate possibilities of health insurance for industrial workers in India. Subsequently, the Government has decided to introduce a comprehensive social security plan on the advice of Messrs. Stock and Rao of the International Labour Office and the Employees' State Insurance Act of 1948 has been passed. The Act aims at correcting several defects in workmen's compensation and maternity benefits. The Act is applicable to $2\frac{1}{2}$ million workers, employed in perennial factories, and it is intended to be extended further.

Notable benefits to workers under the Act include medical care and treatment, a cash sickness benefit at half his average daily wage for a maximum period of 56 days, a maternity benefit for women at a rate of 12 annas a day for a period of 12 weeks, and disablement and dependents' benefit in the shape of pensions for unemployment, injury or death. A fund has been created by contributions from employers and workers and is managed by a Statutory Corporation. But no contributions are taken from employees, earning less than Re. 1 per day. The cost of provision of medical care is paid by the Corporation and the State Governments in the proportion of 2:1. The Central Government's contribution amounts to two-thirds of the entire cost of administration of the scheme. The Employees' State Insurance Corporation has been formed and it is extending its activity.

Other social security moves include the provision of provident funds, housing loans and pensions for workers.

The provisions of the Employees' State Insurance Act, 1948 apply to all perennial factories using power and employing 20 or more persons and cover labourers and clerical staff with monthly

earnings up to Rs. 4,000. Fifteen lakh and seventy-seven thousand persons are covered by the scheme in all the States except Gujarat and the Union Territory of Delhi. At the end of 1959-60, employees' contribution stood at Rs. 4.08 crores and the employers' contribution at Rs. 3.19 crores. A sum of about Rs. 2.68 crores was given to insured persons by way of benefits (Rs. 2.22 crores towards sickness, Rs. 13.58 lakhs towards dependents). Medical care was extended to 4.88 lakh families of insured persons under the scheme in Andhra Pradesh, Assam, Bihar, Madhya Pradesh, Mysore, Punjab, Rajasthan, Uttar Pradesh and the Union territory of Delhi.

Provident Funds

The Employees' Provident Funds Act, 1952, which was originally applied to six major industries, covered at the end of the year 1960 forty-one additional industries, including plantations (excluding tea plantations in Assam), mines, newspaper establishments, match factories, road motor transport establishments, etc. The Act applies to factories and establishments engaged in the notified industries and which employ 50 or more persons and have existed for a period of 3 years. The workers who have continuously worked for one year or have actually worked for not less than 240 days during one year or less and whose monthly wages including dearness allowance and cash value of food concession, do not exceed Rs. 500 per month are compulsorily required to contribute to the Fund at $6\frac{1}{4}$ per cent of their basic wages. The employer is also called upon to contribute an equal amount in respect of such workers. At the end of November 1960, it was operative in about 8,000 establishments, having about 28 lakhs of subscribers out of an employment strength of 32.5 lakhs. The amount of provident fund contributions aggregated Rs. 250.35 crores. A sum of Rs. 63.39 crores was paid as advances, loans, final settlement, etc. leaving a balance of Rs. 186.96 crores, including interest.

A special reserve fund has also been created, relief from which initially will be restricted to cases of death, permanent disability and superannuation.

The Act was amended in 1960 to provide for (i) making it applicable to smaller units employing 20 persons or more (ii)

coverage being continued in establishments where employment does not fall below 15 and remains so for a period of one year, (iii) treating departments and branches of an establishment as one establishment, (iv) including retaining allowances in seasonal establishments for calculating workers' contributions, (v) excluding co-operative societies establishments employing less than 50 persons and (vi) extending exemption from liabilities under the Act for 5 years to small establishments employing between 20 and 50 persons.

Workers are required under these schemes to contribute 6½ per cent of their basic wage and dearness allowance, inclusive of food concessions in cash or kind, the employer contributing a similar amount. The scheme is in operation in the coal mines of Andhra Pradesh, Assam, (excluding tribal areas), Bihar, Maharashtra, Madhya Pradesh, Orissa, Rajasthan and West Bengal. The total assets of the Fund amounted to nearly Rs. 23 crores at the end of October 1960.

Workmen's Compensation Act

The Workmen's Compensation Act 1923, provided for the payment of compensation for injuries received during employment, occupational diseases and deaths resulting from such injuries and diseases. Employees earning up to Rs. 400/- a month were covered. The Act was amended in 1959, considerably widening its scope and operation.

Benefits To Workers

Legislation concerning the payment of maternity benefits is in operation in almost all the States. Some of the State Acts apply to all regulated factories within their jurisdiction, while others apply to non-seasonal factories only. The qualifying period and the rates of benefit vary from State to State. There Central Acts—the Mines Maternity Benefit Act, 1941; the Employees' State Insurance Act, 1948; and the Plantation Labour Act, 1951—also regulate the payment of maternity protection in Maternity Benefit Bill 1960 which was introduced in the Lok Sabha. It will apply in the first instance to all factories, mines and plantations, except those to which the Employees' State Insurance Act applies.

The provision of amenities, such as canteens, creches, rest shelters, washing facilities, medical aid and the appointment of welfare officers, has been made in respect of industries and establishments covered by the Factories Act, 1948, the Mines Act, 1952, and the Plantations Labour Act, 1951. In addition, legislative measures for the constitution of funds for financing welfare schemes in coal and mica mines have been enacted and are in force. Legislation is being undertaken in respect of motor transport workers.

The Fund maintains 2 central hospitals, 8 regional hospitals-cum-maternity and child welfare centres, 2 dispensaries and 2 T.B. clinics. Steps are being taken to increase their number. Anti-malaria measures and B.C.G. campaigns are also in operation.

The Fund is also running adult education centres, women's welfare centres, children's parks and a family counselling service. A scheme for imparting elementary education to miners' children is also in operation.

The Fund provides medical, educational and recreational facilities for mica mine workers. Three hospitals have been established by the Fund at Karma (Bihar), Kalichedu (Andhra Pradesh), and Tisri (Bihar) and another is to be established at Gangapur (Rajasthan). Several dispensaries with maternity and child welfare centres are attending to the medical needs of mica miners. Nine mobile dispensaries are also in operation in certain areas. The Fund maintains several primary schools, awards scholarships and distributes books and stationery free of cost.

Under the Plantation Labour Act, 1951, all plantations are required to provide housing accommodation to their resident workers and their families and maintain hospitals or dispensaries. Some of them also run elementary schools for the education of the labourers' children. Recreational facilities and training in useful handicrafts, such as tailoring, knitting, weaving and basket-making, are provided in some of the tea estate centres with the help of donations from the Tea Board.

These welfare funds were created on a voluntary basis in 1946 for financing welfare activities among workers.

The training centre for welfare personnel at Bhuli, which came into existence in August 1958, imparts training to persons to enable them to organise and run multifarious welfare and social education activities. Three batches have completed their train-

ing. After completion of the fourth course the Centre will be closed down.

Employment Exchange

The Employment Service, started in 1945, consists of a network of employment exchanges each staffed by personnel trained in a carefully devised procedure. The employment exchange renders employment assistance to all employment seekers. It also discharges certain special responsibilities, such as the provision of employment assistance to displaced persons, discharged government employees and those belonging to the scheduled castes and tribes.

There are one hundred and fifty-one training centres functioning under the Craftsman Training Scheme. The other schemes which have been introduced during the second plan period are the National Apprenticeship Training Scheme, the Scheme for the Training of Industrial Workers (evening classes) and the Revised Scheme for the Establishment of Work and Orientation Centres for Educated Unemployed. The Central Training Institute at Koni-Bilaspur (Madhya Pradesh) has been shifted to Calcutta and a second centre which started functioning on a temporary basis at Aundh (Bombay) will shift to Bombay in 1962. Four new training institutes will be established at Kanpur, Madras, Hyderabad and Ludhiana and the Central Training Institute for instructors for women, in New Delhi, will be expanded.

A National Council for Training in vocational trades has been set up to advise the Government of India on all questions of training policy to co-ordinate vocational training and lay down uniform standards. It also awards national certificates of proficiency craftsmen.

Regulation of Wages

The regulation of wages is governed by the Payment of Wages Act, 1936 and the Minimum Wages Act, 1948, as amended subsequently. The former extends to the whole of India, Jammu and Kashmir and applies to persons employed in any factory as defined in the Factories Act, 1948, and in any railway in respect of wages and salaries which average below Rs. 400 a month. Under authority vested by the Act, the provisions of the Act have

been extended to mines, plantations, docks, wharves or jetties in the ports of Calcutta, Bombay and Visakhapatnam and certain other establishments to which the Act can be extended.

The Minimum Wages Act empowers the appropriate Government to fix minimum rates of wages payable to employees in industries specified in the Schedule. Such rates have been notified and enforced in most of the scheduled employments. The Act was amended in 1957 extending inter alia the date for initial fixation of minimum wages for the employees in scheduled employments, including agriculture, to 31st December, 1959. The Amendment of the Act for the purpose of doing away with the time limit for fixation of initial wages is under consideration.

The function of the Wage Boards is to fix a wage structure on the principle of fair wages. Central Wage Boards were set up by the Government of India for cotton textiles, sugar and cement industries. All of them have submitted their reports. Wage Boards for the jute industry and the tea plantation industry have been set up.

The Coal Mines Bonus Schemes framed under the Coal Mines Provident Fund and Bonus Schemes Act, 1948, are in operation in the coal mines of Andhra Pradesh, Assam, Bihar, Maharashtra, Madhya Pradesh, Orissa, Rajasthan and West Bengal. Under these schemes, colliery workers, other than those in Assam, are entitled to receive a third of their basic earnings as bonus by virtue of a minimum qualifying attendance during the quarter. In Assam, bonus is paid on a weekly basis to those employed on a weekly wage and on a monthly basis to those employed on a monthly basis.

Code of Discipline

A code of discipline has been evolved with the approval of the Indian Labour Conference and the Standing Labour Committee. A tripartite committee examines breaches of the code and non-implementation of awards and publishes cases of flagrant violation. A code of conduct to govern inter-union relations was adopted at a meeting of the representatives of the four central labour organisations held at Nainital in May, 1958.

The case has created confidence in the voluntary, as opposed to the legal, approach of promotion of industrial peace. The

implementation committees at the Centre and in the States have settled a number of complicated and long-standing disputes.

Under the Industrial Disputes Act, 1947, 809 works committees in central undertakings were functioning at the end of the second quarter of 1960.

The machinery at the centre mainly consists of the Indian Labour Conference, the Standing Committee and the Industrial Committees. There is also the Labour Ministers' Conference which is closely associated with the machinery though not tripartite in character. The discussions at the session of the Indian Labour Conference in 1960 centred round the strike action restored to by a section of Central Government employees in July, 1960. In three successive meetings the Standing Labour Committee discussed proposals on labour policy during the third plan period. The sessions of the Industrial Committees on coal mining, plantations, and cement held in 1960, discussed setting up wage boards for the plantations industry, extension of coal awards, amendments to the Mines Act, contract labour in mines and intensive work-load studies in a few selected cement factories.

The administration of industrial relations in the central sphere undertakings rests with the Chief Labour Commissioner. To assist the Chief Labour Commissioner, there is a field organisation consisting of Regional Labour Commissioners, Conciliation Officers and Labour Inspectors. The State Governments have their own conciliation machineries headed by the Labour Commissioners.

There is a three-tier machinery for the adjudication of industrial disputes—Labour Courts, Industrial Tribunals and National Tribunals—all with original jurisdiction. Besides the Labour Courts at Delhi and Dhanbad, there are two Industrial Tribunals at Dhanbad and Bombay. In addition, there is an Industrial Tribunal at Delhi for the Delhi Administration, which is utilised by the Central Government. The States have their own tribunals and labour courts, which also function, when necessary, as ad hoc tribunals for the adjudication of disputes in the Central sphere. National Tribunals are set up as and when necessary.

The scheme for labour participation in management was in operation in 24 undertakings in 1959. The desirability for extend-

ing the scheme to as many establishments as possible has been recognised by all and efforts are now being directed towards this end. The sub-committee of the Indian Labour Conference has since been reconstituted as an independent body and designated as the Committee on Labour Management Co-operation.

Questions

1. Discuss any four systems of wage payments to industrial workers and their respective advantages. (B. Com., Cal., 1962).
2. Discuss the principal methods of remunerating labour in modern industries. (B. Com., Bombay, 1961).
3. Explain what are the different methods of remunerations, giving short explanation under each head. (B. Com., Cal., 1958).
4. Discuss the principal methods of remunerating labour in India. (B. Com., Cal., 1949).
5. Describe (i) Profit-sharing, (ii) Co-Partnership. (B. Com., Cal., 1948).
6. On what factor, or factors—time and/or productivity—should the wages of a workman be determined? Give reasons for your answer. (B. Com., Cal., 1939).
7. Give your own idea with convincing explanations about proper distribution of profits between the entrepreneur and the labour. (B. Com., Cal., 1941).
8. Enumerate some of the most outstanding disadvantages under which the present day working people of India have been labouring and state how you would remedy these evils. (B. Com., Cal., 1957).
9. What are the proper functions of Trade Unions? Would you consider them an unmixed blessing? Explain your views carefully. (B. Com., Cal., 1936).
10. State and discuss the methods of payments to wage earners with a view to reconcile with capital. (B. Com., Lucknow, 1961).
11. State the various denominations under which the collective wage system is divided under the present day scientific management and discuss the relative advantages and drawbacks of each. (B. Com., Lucknow, 1960).
12. Explain the relation between efficiency of labour and the methods of remuneration adopted in a manufacturing business. (B. Com., Bombay, 1956).
13. Organised labour in Europe and America is said to display a tendency in the form of a uniform wage scale as opposed to extra remuneration paid on efficiency of individuals. Show the drawbacks attached to this idea from the point of view of both of industry and the workman, giving full reasons for your answer. (B. Com., Bombay, 1952).

14. State what you conceive to be the advantages and disadvantages of the piece-wage method of remuneration. Do you think it desirable that it should be supplemented or modified in any way?
(B. Com., Bombay, 1949).
15. Explain the methods of the principal bonus systems of remuneration comparing them with similar methods of time or piece-wage.
(B. Com., Bombay, 1954).
16. "With all its drawbacks a well regulated Piece-wage System is undoubtedly superior to the Time-wage system." Discuss the advantages and disadvantages from the point of view of general efficiency of the two wage systems referred to in the above quotation. To what types of industry or business are they specially suited? Give illustrations.
(B. Com., Bombay, 1960).
17. You are asked to decide as to what is a "living wage" in case of workmen employed in a particular factory. What points would you pay particular weight to before arriving at your figures? Discuss as fully as you can, giving reasons.
(B. Com., Bombay, 1953).
18. Enunciate the general principles to which wage-systems must conform if they are to be sound incentives to work. (B. Com., Bombay, 1930).
19. What are the difficulties of introducing piece-rates as a general system of wage-system? What contribution has scientific management to make towards the perfecting of the system? (B. Com., Bombay, 1950).
20. Suppose you are the Managing Director of a large manufacturing business. State in outline the methods you would adopt for its scientific management.
(N. U. T., 1960).
21. What do you understand by scientific management? Explain the principle underlying it.
(B. Com., Lucknow, 1961).
22. "The most obvious advantage of scientific management is the additional output that follows a more intensive and better directed division of labour, and a fuller utilisation of plant and capital resources." Comment fully upon this statement and criticise.
(B. Com., Bombay, 1953).
23. What is scientific management? Does it mean scientific sweating of labour?
(B. Com., Bombay, 1926).
24. "To work according to scientific terms, the management must take over and perform much of the work than is now left to the men." Comment.
(B. Com., Bombay, 1955).
25. "Scientific management involves in its essence a complete revolution on the part of the workmen and equally complete revolution on the part of those on management side." Comment. (B. Com., Bombay, 1958).
26. What are the proper functions of labour organisations and what would you consider to be their limitations and why?
(B. Com., Bombay, 1949).
27. Distinguish between Co-partnership and Profit-sharing, and discuss the advantages which profit-sharing methods hold out to employers. Can you suggest any practical difficulties likely to be experienced in the working of profit-sharing schemes?
(B. Com., Bombay, 1957).

28. What are the main difficulties of profit-sharing schemes? What are the causes of the hostility of trade-unions towards them? How far is it justified by past history? (B. Com., Bombay, 1930).
29. Describe the changes which occur under scientific management in the internal organisation of a business and estimate the effect of these changes on labour and management. (B. Com., Bombay, 1946).
30. Discuss the principles underlying the different methods of remunerating labour, carefully bringing out the advantages and disadvantages of each principle. (B. Com., Cal., 1944).
31. Explain the different methods of payment of wages to skilled workers and to clerical establishment in an industrial concern. State the merits and demerits of each method. (B. Com., Cal., 1942).
32. Suggest suitable methods of reforming prevailing systems of wage payments in Indian industries so that workers may participate in profits, and their remuneration is protected in case of changes in costs of living. (M.A., Cal., 1951).
33. What are the various criteria that should be applied in judging a particular wage system? Illustrate your answer fully. (B. Com., Rajputana, 1949).
34. What do you understand by the term "living wage"? How would you calculate it for textile works in Bombay City? What would be the likely effects of the enforcement of such a wage? (B. Com., Bom., 1941).
35. What is a Trade Union? Explain its meaning and function. In what circumstances may strikes be justified? (B. Com., Cal., 1947).
36. Describe briefly the various systems of remunerating labour in factories and indicate the merits and demerits of each. (B. Com., Cal., 1949).
37. Describe the various ways by which the modern labourer is remunerated. What is meant by Efficiency of Labour? (B. Com., Cal., 1951).
38. Discuss the methods of payment to wage-earners in modern times with a view to reconcile labour with capital. (B. Com., Cal., 1953).
39. Discuss the different methods of remunerating labour in industry. (B. Com., Cal., 1954).
40. What are the principal causes of unequal pay of men and women in any business concern. (B. Com., Cal., 1955).
41. It is said that "piece-rate" affects quality but increases production, whereas "time rate" improves quality but affects production. Do you agree? If so, suggest a system of wage payment which would maintain both quality and quantity. (B. Com., Cal., 1955).
42. Discuss the methods of payment to wage-earners in modern times with a view to reconcile labour with capital. (B. Com., Cal., 1956).
43. Why is the single proprietorship business not in danger of being entirely crowded out by large corporations? (B. Com., Cal., 1957).

CHAPTER XIII

WHOLESALE AND RETAIL TRADES

General

If a commodity is produced, it reaches the hands of consumers through various stages. Wholesalers buy goods in big quantities and sell them to retail dealers, who sell them again to consumers. As production is made on a vast scale, manufacturers are occupied with production, leaving the work of marketing to other people. Producers and consumers are distantly situated from one another. So a special class of people undertake the task of marketing commodities. Wholesalers take risks of price fluctuations. They stock goods and lock up capital. So manufacturers need not block capital in the shape of stocks. Retailers come in direct contact with consumers. Individual tastes and fashions are met by retailers. Consumers require personal attention and care, which are given by retailers.

All retail stores are concerned with buying and selling commodities. Retail stores may specialise in one type of goods, such as grocery, drugs, clothing or food, or may sell many kinds of commodities.

A wholesaler maintains at his place of business stocks of goods which he sells to retailers. In a retail store a customer inspects, selects and buys goods and he takes them. The wholesaler's stock is kept in a warehouse from which deliveries are made to retail merchants by the former.

Organisation of Wholesale Business

A wholesale trading firm has administrative and executive divisions. Accounts, finance, correspondence and general administration are looked after by an administrative section which works through many departments, such as accounts, cash, credit, information and collection of the accounts departments. Buying, selling, forwarding of goods, etc., are supervised by the executive section which works through purchasing, selling, warehousing departments, etc.

Accounts and finance departments supervise the accounts of a firm. They decide what should be the capital and they apportion capital among various departments according to requirements. An Accounts department is the key department. The solvency of a firm depends upon the efficiency of the accounts department. It must collect dues of a firm and pay the creditors.

A wholesale firm buys commodities through a purchasing department which works through many sectional managers. The latter buy goods on a wholesale basis. Sectional managers make purchases and they work under the supervision of a general manager.

A wholesale firm need not maintain a fashionable showroom or office. Goods should be so kept that they may be shown to buyers. It will help work and reduce costs. Goods should be stocked and warehoused in such a way that despatch and forwarding are easy. Goods may be advertised by outdoor display, propaganda and publicity, outdoor salesmen, etc. A wholesale firm may combine wholesale business with retail trade. In that event showrooms are kept and goods are sold as in a retail shop. When a wholesale firm transacts wholesale and retail business, care must be taken to maintain the same price as is charged by retail dealers. Otherwise retailers will be undercut and discouraged from trading with a wholesale firm. As it is not the object of a wholesale trader to compete with retailers, he transacts only small retail business.

Retail Trade : Organisation and Management

Moves have been made for increasing consumption by many methods of retail trade, such as multiple shops, departmental stores, hire-purchase, mailorder business, etc.

A retailer's success flows from popularity. He attends customers personally. The importance of a locality and premises is great in the case of a retail business, as customers should find it convenient to go to a retail shop. It should attract customers. The selection of a site depends upon the nature of goods and customers. A retailer should specialise in particular goods so that he may acquire reputation in a line. It is preferable to choose a site near where there are similar shops transacting the same trade. For example, a book-shop in Calcutta should be started

near College Street, a suit-case and trunk shop on Harrison Road and so on.

A retailer must buy the commodity on favourable terms. Purchases should be made at economic rates. Records of goods bought must be kept. An Order Book ought to be maintained, keeping a record of orders sent out for buying goods. When commodities are received they should be carefully examined and they must tally with specifications as given in orders. A "Goods Received Book" ought to be maintained in which a record of goods received should be noted.

Purchases may be made either by cash or on credit. Cash purchase is preferable, otherwise a higher price is charged in the case of credit buying. Payment should be made regularly. A good system of payment satisfies a wholesaler. After receiving commodities, a checker will initial invoices. After checking them fully, he will pass them to an officer who gives orders. The latter will authorise the payment by passing invoices over to a cashier. He will enter it in a "Purchases Day Book". A cashier will either make payments or fix a date for the payment.

Salesmanship is important in retail business. If a customer enters a shop, a salesman must take care and employ skill in persuading a customer to buy.

A good retailer must give publicity to the commodities which he sells. Advertisement must be made in collaboration with the sales department. A shop must display goods which are advertised. A salesman should be able to explain to a customer about the goods which are advertised. A retail dealer goes in for window display and window dressing to a considerable extent. The art of window display has changed. The former idea of congesting windows with many goods has been abandoned. Now in window display four principles are followed. The display is made in a simple and attractive way, goods are displayed, details including prices of goods are visible and popular articles are exhibited.

The size of a retail establishment is governed by the nature of business and capital resources. In dress-making, drapery, tailoring, etc., a small retailer is a common unit, as business cannot expand on a large scale because individual tastes and fashions are to be satisfied. Retail business on a large scale is started if it is thought to be economic. Buying can be made on

a large scale and at cheaper prices. Costs of carriage and management can be reduced. An expansion of retail trade may be either vertical or horizontal. A horizontal expansion is found in the case of a departmental store, if the size of a retail business is fairly big. A vertical example is noticeable in the case of a multiple shop system which is started and managed either by wholesalers or manufacturers. Multiple shops are generally run by producers. A small retailer exists as his costs of management are low and he pays personal attention to clients. Retailers may give special services by means of a free house-to-house delivery. They go to houses of customers for obtaining orders.

A retailer should fix competitive prices. If a retailer has a sole agency in a commodity, the manufacturer fixes prices. In that event a retailer marks the prices on the commodity. Marking prices on goods is a good system. It saves higgling and bargaining. But prices should not be marked in such a way that they cannot be removed. After buying a customer does not like to exhibit the prices, especially if a commodity is meant for presentation or gift. Retailers may mark prices in a secret way which is known to the staff only. Such prices can be marked by means of codes or "cyphers". The "cypher" system of marking prices means that letters are used for numerals. For example, letters A to J mean numbers from 1 to 10. Many shops have their own codes, which are intelligible to the staff only. Outsiders do not understand them. The system of marking prices in a secret way is required if different prices are charged for the same commodity. From the "cypher" system, the staff knows the cost price, so they can regulate the price for customers. It is useful to reduce prices if seasonal sales are to be made. Marking prices on goods helps stock-taking as prices can be found without reference to books and records.

Hire-purchase and Deferred Payment Systems

In retail trade commodities are sold for cash. There are several people who like to buy a commodity, especially an expensive one, like a radio or a motor car, but they cannot do so if they are to pay cash. They can buy the commodity if they are allowed to pay in convenient instalments. So the hire-purchase and deferred payment systems have been found.

Hire-purchase System

In both the hire-purchase and deferred payment systems a contract is made between a buyer and a seller. Under a hire-purchase system, a buyer contracts to pay in convenient instalments, takes delivery, and enjoys a commodity, although the right of ownership remains with a seller until the final instalment, covering the full price of a commodity, is paid. If a buyer fails to pay an instalment as per contract a seller may forfeit a commodity and no consideration is paid for the money which a buyer pays towards the price. The system has disadvantages for a buyer who defaults to pay instalments either by a mistake, or owing to changes in his economic circumstances.

Deferred Payment System

In order to remove the defect of a hire-purchase system, a deferred system of payment has been introduced for increasing sales. In the latter system the right of ownership is passed over to a buyer on the payment of an instalment, although a seller reserves the title of regaining his right of ownership if an instalment is not paid with a provision that such a right is good minus the money which is paid by a buyer. A seller may recover expenses from the money paid by a buyer. So if a buyer pays some money he does not lose the entire amount as in the hire-purchase system. In India, the hire-purchase system is more popular, as the deferred payment system requires greater knowledge and experience about a buyer. Such knowledge is difficult to obtain.

Merits and Defects of both

Both the systems can be abused. Buyers should not be tempted to live beyond their means. Sellers should not use the systems indiscriminately and they should pay attention to buyers' means, needs and conduct. The systems should be extended to commodities of durable quality or sellers may lose.

The systems are beneficial. Prices are higher than in cash purchases. A seller must wait for the full payment. Interest and risks of waiting must be rewarded. They may encourage thrift and saving. It is not possible to save money and buy a

high priced article. It is possible to do so if payment can be made in convenient instalments. If people pay by instalments they are induced to save for meeting instalment payments. A hire-purchase system has proved useful for the middle-class people in respect of building houses. Building societies use the system and enable people with modest means to get their own homes. In India there are many mills and factories which cannot afford to pay the price of machinery fully. They can buy it under a hire-purchase system and they pay the instalments out of profits which are earned by means of the machinery.

In fact, a great deal of foreign machinery and equipment have to be bought at present on deferred payment systems because of the shortage of foreign exchange in India.

Questions

1. Discuss and describe the system you would introduce in connection with cash and credit sales of a large store where purchases are made wholesale but sales are retail. (B. Com., Cal., 1956).
2. You have been appointed sole Agents in Madras for a new brand called "Black Tea". Write your first report to your principals (who are experts in the business of tea and coffee) describing the prospects and necessary measures for obtaining a successful sale of the products. (B. Com., Cal., 1959).
3. "Trade is sometimes divided into Export and Import, Wholesale and Retail." Discuss carefully the defects of the division. Can you suggest any useful method for the classification of trade? Give full reasons. (B. Com., Cal., 1931).
4. As Sales Manager of a Motor Car Company write a letter to an enquirer about your Hire-Purchase system. (B. Com., Cal., 1933).
5. Examine the principles underlying the office organisation of wholesale trading firms. (B. Com., Bombay, 1960).
6. What are the peculiar dangers of instalment selling from the standpoint of customer and businessman? (B. Com., Bombay, 1958).
7. What are special features of the hire-purchase system? To what trade is it specially adapted? What are the inherent risks? (B. Com., Bombay, 1952).
8. State the potential value of window display as used by (a) a general stores, (b) a manufacturer, and discuss the important factors which an efficient manager should particularly note. (B. Com., Cal., 1954).
9. By what criteria should a wholesale house determine the amount of credit retailers? (B. Com., Bombay, 1956).

10. Discuss the principle of salesmanship as applied to a large store and give a brief sketch as to the office routine to be applied in case the store allows short credit to approved customers.
(B. Com., Bombay, 1949).
11. State briefly the various methods by which payments for commercial transactions are made in internal as well as in international trade.
(B. Com., Cal., 1948).
12. You have supplied the following articles to M/s. Hindusthan Development Corporation Ltd. against their indent No. H/Eng./408, dated 14-3-48. Draw up a Bill for the same in the usual form noting in detail the quantities, rates, and prices of each article together with 'Sales Tax' @ 0/0/9 pies per rupee on the total of the prices.
40 mds. of Groundnut oil @ Rs. 43 per md.
25 seers of Washing Soap of Jadavpur Soap Works @ Re. 1/4 per seer.
60 cft. of Country Teak Timber @ Rs. 850 per ton of 50 cft.
(B. Com., Cal., 1948).
13. "In retail business skill in selling is of smaller importance than the art of buying." Comment.
(B. Com., Cal., 1952).
14. Why are the services of retailer greatly in demand? What are the special facilities allowed by him to the customers?
(B. Com., Cal., 1956).

CHAPTER XIV

MULTIPLE SHOPS

Definition

A multiple shop system consists of many similar shops owned by the same proprietor. The shops transact retail trade and deal in a few commodities. More often than not a manufacturer, specialising in a particular line of production, starts multiple shops. The Bata Shoe shops, Khadi Pratisthan and Flex Shoes are examples of multiple shops. Multiple shops are similarly housed and situated, and people find little difficulty in finding them. Multiple shops are started by wholesalers or manufacturers for eliminating middlemen. The multiple shop system is an example of a vertical combination.

Advantages

The multiple shop system stimulates retail sales. Having several branches, a single unit can obtain economies resulting from large-scale buying and selling.

The sales of multiple shops are substantial. As the sales are big, costs of business are small. By doing business on a cash basis multiple shops suffer no loss on credit transactions like ordinary retail shops. So they require no staff for maintaining credit accounts.

By having multiplicity of branches a multiple shop system serves the public easily and efficiently. Customers get a shop near their residence and they buy commodities conveniently. Costs of advertisement are small as each shop of a chain advertises for another.

In the system a shortage of stock in one of its branches can be made good by transferring the surplus stocks from another shop but a single retail shop cannot do so if stocks run short.

Disadvantages

As multiple shops transact mass business they lack in personal touches between a customer and a seller. Although multiple

shops complete with small retail traders, the latter will exist so long as customers want personal attention and care.

Management and Control

Premises of multiple shops are selected according to types of customers.

Multiple shops centralise stocks which are kept at a central depot or head office. Each branch is supplied with a stock according to requirements and an accumulation of stocks at any branch can be avoided. Since a head office supplies stocks to branches and fixes selling prices it becomes easy to keep a check upon stocks of branches. If the multiple shop system is run by traders or merchants and not by manufacturers, it can buy things cheap as purchases are made on a large scale. Economies in carriage, packing and deliveries are available.

The multiple shop system may be started in the form of a limited company. So it is controlled by a managing director, who is responsible to the board of directors.

Each branch is managed by a branch manager. He submits to a head office periodical reports about goods sold, expenses incurred, and stocks on hand. He has little voice in management. He obtains direction from a head office. Prices of commodities are fixed by the head office. A branch manager tries to make his branch profitable by a big turnover. He is responsible to a managing director. It is common to create an intermediate official in the shape of an inspector who is placed in charge of several branches. A branch manager is directly responsible to an inspector who is responsible to a managing director.

Sales of multiple shops are made on a cash basis and cash of a branch is banked daily to the account of the head office. It is a good system not to allow a branch manager to use current cash for meeting the expenses of a branch. Fixed expenses, such as salaries, rents, rates, etc., of branches are paid by the head office which advances to a branch manager a certain amount of money for meeting contingent expenses.

Record-keeping of branches is simple. The head office sends a book to a branch for keeping a stock account and a cash account. Both accounts may be printed and written on the same page for

checking. Copies of accounts must be sent to a head office every week. As cash is banked daily, it is desirable that counterfoils of paying-in slips together with counterfoils of receipts, if receipts are given to customers, should be sent every week to the head office along with the weekly cash account. The head office keeps a record of goods sent each day to a branch and the head office record is compared every week with stocks as shown in the stock account of a branch. A branch may return some goods to the head office because of defects. Such a return is called "returns to H.O." The discrepancy between the stock on hand and the stock which is recorded in the stock account is called "allowances". A certain percentage of discrepancy is allowed for wastage, breakage, etc., and any excess over such a percentage must be explained fully by a branch manager. The work on hand can, therefore, be checked easily and it is a practice of the head office to send an official from time to time to branches for verifying the stock account by comparing it with stocks on hand.

Tied Shops

A producer may ask a retailer to sell his goods if the latter agrees to sell such goods only in preference to competitive products. Such a shop is tied to selling the goods of a manufacturer. This type of tied shops is common in jewellery and fancied articles. It is like a sole agency business. In this way a retailer may obtain the monopoly of products, and the manufacturer ensures that a retailer must not sell competitive articles.

Chain Stores

Chain stores are similar to multiple shops. Chain stores are started by retailers, but multiple shops may be managed and controlled by manufacturers. Advantages, disadvantages, control and management of chain stores and multiple shops are similar.

Questions

1. Describe a multiple shop by a suitable example. (B. Com., Cal., 1956).
2. Give your views on the effect of the increase of multiple shops on
(a) the manufacturer, (b) the wholesaler, and (c) the retailer.
(N. U. T., 1960).

3. Describe the methods of management of a multiple shop.
4. What are chain stores?
5. Compare the advantages and disadvantages of departmental stores and multiple shop system of retailing. (B. Com., Cal., 1953).
6. Discuss the set up of "multiple shop" system. (B. Com., Cal., 1955).
7. Distinguish carefully between a multiple shop and a Departmental store. Discuss the advantages of each. (B. Com., Cal., 1957).

CHAPTER XV

DEPARTMENTAL STORE

Definition

A departmental store denotes a big single retail shop which is housed in the same building with several departments, each transacting a different type of trade. It is a conglomeration of many small retail shops. In the stores there are drapery, shoe, crockery, furniture departments, etc.

The idea of a departmental store is to render service to customers. It keeps quality goods and tries to be self-contained.

Advantages

"Service" to customers is an important feature of a departmental store. It has the advantage of selling many kinds of commodities under one roof.

One department advertises for another. If a customer goes to a departmental store to buy an article he may see another attractive thing which he is tempted to buy. In this way the total sales of a departmental store increase.

A departmental store may maintain a "delivery service". It may undertake to deliver goods to customers' houses, and it may maintain other useful services.

As a departmental store is centrally situated it can attract many customers.

Disadvantages

As a departmental store depends for success on giving efficient service, it tries to cater to the tastes of customers. It maintains many departments which do not even earn maintenance costs but they are maintained, as customers like to buy all their requirements from such a store. For example, a departmental store maintains a restaurant, hair-dressing saloon and similar other non-paying departments to please its clientele. So overhead costs of a departmental store are high.

A departmental store is situated centrally in extensive premises. Its central position makes it a good "shopping" centre, but unlike a multiple shop or an ordinary retail store it is far away from the customers. So customers go to other retail shops for buying their day-to-day requirements. In order to render efficient service a departmental store should maintain an expert class of salesmen. So costs of maintenance of a departmental store are higher than in a multiple shop or in any other retail shop. It is not possible to give personal attention to clients in a departmental store so much as is possible in retail shops.

Management and Control

A departmental store needs to be located in a central place of a town. It may be formed as a limited company, and managed by a board of directors. There is a managing director who is the executive head.

There are many departments. Each is in charge of a departmental manager who is responsible to a managing director. If there are many departments in a store, a sectional manager is appointed in charge of many departments. Departmental managers are responsible to their respective sectional managers. Sectional managers constitute a board of management which meets once or twice a week under the chairmanship of a managing director for discussing policies.

A departmental manager is an important person. He is responsible for his department. Whether his department makes losses or profits depends on his capabilities. Freedom and discretion are given to a departmental manager. He buys commodities of his department from the market at reasonable prices. He must buy goods which can be sold easily. He must be able to forecast fashions and tastes correctly. He fixes prices of articles to be sold by his department. There may be restraints by giving him a fixed amount of money every week for making purchases. He may exceed this amount only under special circumstances. He is restrained from charging high prices, as a departmental store should charge reasonable prices. A departmental manager pays attention to selecting the right type of salesmen who are smart, courteous and attractive. Proper window display must be

arranged by him. In order to attract public attention, a departmental store offers special bargains during seasonal sales.

A careful record of goods purchased by a store should be kept. It is a good system to keep a store-room for stocking goods of each department separately. A departmental manager gives orders for buying articles and he keeps copies. When goods arrive invoices are compared with specifications as given in orders. They are stored, and each department obtains supplies according to requirements.

A departmental store should despatch goods to customers in proper condition.

Receipts and despatches of goods are checked and supervised by an accounts department.

The selling methods of a store are interesting. Each salesman has a number. He enters particulars of a sale, including his number, on a voucher in a voucher book. The voucher is initialled by a departmental manager, or by some other senior official of a department. Cash received with a voucher, taken out from a book, is sent to a central office automatically by means of pneumatic tubes, or it is taken personally by a salesman to a central cash desk. The receipt and change, if any, are returned to a customer and a duplicate receipt is kept in a book. In order to trace a salesman through whom an article is sold a number is given to him. When credit sales are made details are sent to a cash department which will collect the money. Sometimes cash is paid on delivery of goods and a despatch department sends to a vanman details of the purchase. The latter collects the money and gives it to the cash department.

The accounts department is important. Money received by each department or by the central cash desks is totalled up and checked, either daily or periodically with duplicate receipts in a salesman's books. It is sent to the accounts department with duplicate receipts. Cash is checked. Duplicate receipts of cash department are separated, and the total cash of each department is found. The total must tally with the total submitted by a departmental manager who compiles his total from duplicate receipts from the salesmen's books. Money is later sent to the bank.

The accounts department is in charge of paying fixed establishment expenses, such as wages, rents, taxes, lighting, heating,

etc. It prepares comparative tables, showing sales, stocks, etc., of each department. They show whether a particular department is making gains or losses.

Questions

1. What are the advantages of a Departmental Store? Set out a suitable organisational structure for such a store. (B. Com., Cal., 1962).
2. What is the idea from the point of view of organisation in case of a departmental store as distinguished from the multiple shop arrangement? Discuss fully. (B. Com., Lucknow, 1960).
3. Analyse the main features of a departmental store and account for its progress or otherwise in this country. (B. Com., Bombay, 1961).
4. If you were placed in charge of the Sales Department of a wholesale business, what measures would you take for pushing the sales and maintenance of an office record with proper checks?
(B. Com., Bombay, 1956).
5. Distinguish carefully between a Multiple Shop and a Departmental Store, giving at least one example of each kind of business in Calcutta.
(B. Com., Cal., 1925, 1940).
6. Distinguish between Multiple Shops and Departmental Stores. Explain how you would lay out your office and the different departments to the best advantage to yourself if you are the owner of a large Departmental Store.
(B. Com., Cal., 1942).
7. What is a Departmental Store? You are the owner of a large Departmental Store. How would you arrange the lay-out of the Store in its different departments so as to show your goods to the best advantage? Give a short sketch showing the situation of the different departments.
(B. Com., Cal., 1949).
8. Discuss why Departmental Stores are popular in big cities and how such stores should be organised for efficient management.
(B. Com., Cal., 1954).

CHAPTER XVI

BUYING AND SELLING

Sales

“Sales are the life blood of a business”. A company cannot continue in business for long without making sales. Sales do not mean merely taking orders. It includes efforts for increasing sales to consumers steadily.

Selling covers three functions, namely, (a) finding out what people want or need, (b) finding those who want or need it and (c) getting orders from them. Many concerns maintain research bureaus to keep in touch with developments in products and markets. The purpose of research is to develop new products and improve sales.

A businessman wants to capture new markets. In doing so he depends on the quality and price of products, but it is not enough to convince a customer by merely stressing the quality and the price. A low price could create suspicion about quality. Markets can be captured by giving superior service.

Purchases

As a business has a sales function so a business has a purchasing function. Business firms buy merchandise, materials, equipment and supplies.

Commodities may be bought for resale. So a buyer should look after stability, style and price. A commodity should conform to specified standards which are drawn up to suit production requirements.

A trader or a producer buys with a view to selling his goods. The materials which a buyer takes should be bought at a reasonable price.

Buying may be handled by departmental heads. Progressive firms find it worth their while to concentrate buying on one central department. It ensures quality and cheap prices.

Storekeeping

Storekeeping denotes storing materials and supplies in safe places. A storekeeper issues materials which are required, and he takes care that supplies do not run out before further quantities are ordered and received.

A store room should be safe from fire, theft and deterioration, and it should be accessible. Stores should be handled like cash. They should be kept under lock and key. If materials are stored haphazardly there is likely to be waste because of careless handling or theft. Stores should be handled with strict accountability.

The location of store rooms is important. They should be near a department which they serve. If more than one depot are maintained a close check should be maintained to prevent items from running out. Nothing should be issued from stocks without proper authority. Any delivery should be charged to a department or an account. In a business concern it is done by a slip of paper indicating what is wanted, who wants it, who is receiving it and who is to be charged. The slip of paper is called a stock requisition or material requisition, and it is signed by an authority.

A storekeeper must know stocks. A satisfactory method of checking stocks is to keep a certain amount as a minimum below which stocks on hand must not be allowed to fall, unless a new order is placed.

Many business houses maintain stock records on cards which show the quantity received and the quantity issued. The difference between the two constitutes the balance of stocks on hand. Whether it is correct can be determined by counting stocks. Such a count is called physical inventory which is taken weekly, monthly or yearly. Many firms keep a continuous check on stock records by having a stock clerk who takes one section of the stock room every day and compares the amount on hand with the stock record. Many concerns examine their stock record cards at

intervals and investigate all cards on which there have been no issues since an inspection. It helps remove obsolete items from the shelves.

Sale and Purchase : Contract

If goods are delivered to a buyer, a contract for sale takes place but an agreement to sell exists, if articles are to be delivered at a future date. If an offer is made by a seller and a buyer accepts it in full, the contract is binding upon a seller and a buyer. If the offer is accepted with alteration, it becomes virtually a new offer, and it is no longer binding upon the parties, unless accepted mutually.

A contract for the sale of goods may be written, unwritten, or partly written. A contract may be implied even from the conduct of parties but such a contract cannot be enforced for a value, exceeding a certain amount, unless the actual delivery of at least a part is made or some payment is made. If a contract is made for the sale of goods which can be identified and which are ready to be delivered, the goods are called specific. If the contract is made for the sale of goods which a seller will procure, the goods are called future goods. In the latter case, it is an agreement to sell and it contains particulars about specification of articles, time of delivery, etc.

In order to avoid difficulties it is preferable to have a contract in writing in one document which can be made available easily.

The maxim of *caveat emptor* is applicable to all transactions and it means 'let the buyers beware'. A purchaser must look after himself and examine the goods. There is no warranty for quality and fitness of articles except (a) where a buyer notifies his intention of buying an article of a particular specification and depends upon a seller for the selection of the article and (b) where an article is sold according to sample. In (a) and (b) there is an implied warranty that the article should serve the object for which it is meant to be used by a buyer, or it should conform to the sample or description.

A contract for sale is based on some conditions and warranties. A *condition* denotes a stipulation which is essential

for the purpose of a contract and its breach may give a right to repudiate a contract and claim damages. A *warranty* means a stipulation collateral to the main purpose of a contract and a breach gives rise to a right to claim damages only but not a right to reject articles and repudiate a contract. The construction of a contract will reveal whether a stipulation is a condition or a warranty. A buyer may treat a condition as a warranty. He must do so if he takes delivery of articles, even in part, or when property passes to a buyer, unless the contrary has been provided in a contract. Although under the doctrine of *caveat emptor* a buyer must be careful, he is protected by some conditions and warranties which are implied in a contract for sale, unless something to the contrary is provided in a contract. It is an implied condition that a seller has a right to sell articles in the case of a sale and a right to sell in the case of an agreement to sell, if the property is to pass to a buyer. It is an implied warranty that a buyer must obtain and enjoy the peaceful possession of the goods. It is an implied warranty that articles are not charged or encumbered secretly to a third party. Implied conditions and warranties may be negated by express conditions and warranties.

A contract for sale contains all terms and conditions in respect of description, quality, price, payment, delivery, etc., of goods.

Order

If a retailer buys goods from a wholesaler, the former sends orders for the goods to the wholesaler.

Invoice

If a seller sends goods to a buyer he also sends an invoice for the goods. An invoice means a statement, giving description, quality, price, methods of packing, carrying, etc., of goods. After receiving an invoice a buyer compares goods with details given in an invoice. If there is a discrepancy between goods and an invoice, it is returned to a seller for correction. An *Advice Note* is added to an invoice, stating methods of conveyance, and other particulars as are necessary in special cases.

INVOICE

S. C. Bose, Esq.....Dr.

2, Beadon Row, Calcutta.

To Fashion Dealers,

20, Bowbazar Street, Calcutta.

Cabinet-makers and Upholsterers,

Phone B.B. 2692.

Bill No.....

Date.....

Order No.....

Voucher No.....

To cost of:—

| | | | | | |
|-------------------|-----|-----|----|---|---|
| 1 Bed 7' × 5' | ... | ... | 90 | 0 | 0 |
| 2 Dressing Tables | ... | ... | 78 | 0 | 0 |
| 1 Dressing Chair | ... | ... | 10 | 0 | 0 |
| 2 Top Chairs | ... | ... | 12 | 0 | 0 |
| 2 Teapoyes | ... | ... | 10 | 0 | 0 |
| 1 Clothes Horse | ... | ... | 10 | 0 | 0 |

| | | | | |
|---------------|----|-----|---|---|
| TOTAL | .. | 210 | 0 | 0 |
| Less discount | | 10 | 0 | 0 |

| | | | | |
|-----------|----|-----|---|---|
| | | 200 | 0 | 0 |
| Less paid | .. | 20 | 0 | 0 |

180 0 0

Rupees One Hundred and Eighty only.

Terms:—5% 1 month.

The term 5 per cent. 1 month means that if payment is made within one month, a discount of 5 per cent. will be given on the total bill. Less discount of Rs. 10 means that the amount has been deducted from the bill. Less paid Rs. 20 denotes that the amount has been advanced towards the price, and it should be deducted from the final payment.

Debit Note

It is possible that a seller undercharges a buyer in a certain invoice by mistake. Then a statement is sent by a seller to a buyer, pointing out the mistake and showing the amount of undercharge. The statement is known as a *Debit Note*.

DEBIT NOTE.

Messrs. Ghosh & Co., Carlton Road,
New Delhi.
Dr. To Dutt & Sons, Ltd.

| | | Rs. | As. | P. |
|-----------------|--|-----|-----|----|
| 12th May, 1962. | To 3 Books, namely Business Organisation by Roy, invoiced at Rs. 2 each, should be Rs. 3 each. | | | |
| | Undercharge | | | |

Credit Note

It is possible that a seller overcharges a buyer, then a seller sends to a buyer a statement, showing the amount which is overcharged by mistake. The statement is called a *Credit Note*. It is the reverse of a debit note.

CREDIT NOTE

Messrs. Ghosh & Co., Carlton Road,
New Delhi.
Cr. By Dutt & Sons, Ltd.

| | | Rs. | As. | P. |
|-----------------|--|-----|-----|-----|
| 12th May, 1962. | By 3 Books, namely Business Organisation by Roy, invoiced at Rs. 4 each, should be Rs. 3 each. | | | |
| | Overcharge | 3 | ... | ... |

Debit and credit notes are used by buyers and sellers, according to circumstances of either undercharge or overcharge.

Pro Forma Invoice

A pro forma invoice is used in the following circumstances :—

(a) To point out to a buyer what he should pay if he buys the goods. It is similar to a price quotation and it is used if goods are sent on approval. If goods are bought the payment should be made on the basis of a pro forma invoice.

(b) It is used if a buyer is unknown to a seller and the latter wants payment before the delivery of goods. A seller sends a pro forma invoice and requests for the payment before delivery.

(c) It is sent to customs authorities for evaluating the goods for fixing duties.

(d) It is sent by a principal to agents who sell goods on behalf of the former. Agents take possession of the goods and do not pay until they are sold. A pro forma invoice is sent to an agent to help him ascertain the prices of the goods.

Statement

A firm sends to customers a statement of accounts which is a copy of accounts of a customer after they are balanced. It shows a balance due at the beginning of a period and dates, and the amounts of goods bought and of the payments made. It is balanced to show what is owing and carried forward. It serves as a reminder and helps customers and sellers examine if their books agree. A discrepancy may be corrected by means of debit or credit notes. A statement contains terms and other comments, such as kindly pay at your earliest convenience, the account is overdue, etc. If payment is not made, a collector is sent. Even if payment is not received, legal action may be taken.

Payments may be made by cash, postal order, money order, cheque, bill of exchange, etc. Receipts are issued as soon as payment is received.

STATEMENT

FASHION DEALERS,
20, Bowbazar Street, Calcutta.

Bose, & Co.,
2, College Square,
Calcutta.
15th July, 1962.

DR. To Fashion Dealers.

| | | | Rs. | As. | P. | Rs. | As. | P. |
|-----------|----|--------------------------------------|-----|-----|----|-----|-----|----|
| January 1 | .. | To Balance of Account rendered | | | | 50 | 2 | 3 |
| " 18 | .. | " Goods | 20 | 1 | 2 | | | |
| " 25 | .. | " Goods | 10 | 6 | | 30 | 7 | 2 |
| January 6 | .. | By Cash | | | | 80 | 9 | 5 |
| " 20 | .. | " Returns | 40 | 2 | 3 | | | |
| | | | 6 | | | 46 | 2 | 3 |
| | | | | | | 34 | 7 | 2 |

Sales and purchases may be made orally, especially in retail trade, stock exchange, produce exchange, auction mart, etc. In that event it is a practice to confirm oral statements by means of bought and sold notes. A bought note is a contract note sent by a buyer to a seller, stating the terms and conditions of the purchase. Similarly, a sold note denotes a contract sent by a seller to a buyer, describing the terms and conditions of the sale.

Calcutta,
20th June, 1962.

BOUGHT NOTE

Bought of

S. C. Bose & Co., Calcutta.

500 bales of pucca jute at Rs. 15-8 a bale.

Ghosh Brothers & Co.,
Calcutta.

A *sold note* is similar to a *bought note*, with the difference that instead of writing "bought of", it is written "sold to".

Terms of Payment, Prices and Quotations

Price lists are issued by a seller. A price list shows prices. It is not an agreement to sell and the price quotations may be changed if an order comes or the goods run out of stocks. A prices current or P/C shows the market prices of goods fixed at one time. It does not mean an agreement to sell and the prices may be changed if an order is received.

An estimate means a written offer to do a certain work or to sell an article at a specified price.

A tender is made in response to an invitation requesting price quotations for the supply of goods or orders as in the case of a contract work.

A firm offer is made by a seller, if he promises to sell goods at fixed prices within a specified time. It is not binding on a seller, unless it is made in exchange of valuable consideration, or by means of a deed.

If a quotation is sent it is numbered and a copy is kept.

Ready delivery means that the goods are in stock and they can be delivered as soon as an order is received.

Prompt delivery means delivery within a few days after receiving an order.

Forward delivery means delivery at a future date.

"For acceptance within ten days" means that the quotation given in an offer remains open for ten days.

"3 per cent. 5 days" means that if the payment is made within five days after receiving the invoice, a discount of 3 per cent. over the price is allowed.

"On approved account" denotes that a seller is not prepared to sell on credit unless a buyer is known, or he is recommended by the accounts department of a seller as a suitable party for credit business.

"Loco" denotes the price at a factory. It includes the costs of packing. If it does not, the loco should expressly state it, e.g., Loco Calcutta factory, packing extra. "Ex-warehouse" means the same thing as Loco.

"At Station" price should mention the name of the station, and it does not include the costs of loading on wagon.

"On rail" price includes charges of putting goods on wagons.

"Car. fwd., i.e., carriage forward" means that costs of putting

goods on rail are borne by a seller, but freight is paid by a buyer. It is the same thing as "F.O.R."

"Carr. pd., i.e., carriage paid" means that the costs of sending goods to a customer's place are borne by a seller.

"C. W. O., i.e., cash with order" means that payment should be made with order or goods will not be despatched.

"C. O. D., i.e., cash on delivery" means that cash should be paid at the time of delivery of the goods. The postal authorities may facilitate payment by V.P. parcel which means value payable parcel in which the value is paid if a parcel is delivered.

Spot cash means that cash must be paid with an order, or as soon as the property is passed over to a buyer.

Prompt cash means that cash should be paid within a few days after obtaining the invoice.

Net cash means cash which is payable after all allowances and deductions are made.

Cash discount refers to an allowance which is allowed to a buyer on prices for prompt payment or if payment is made before the debt becomes due. Trade discount denotes an allowance which is made out of the price and given to a trader who buys for selling.

Tare denotes the weight of a container, such as the sack, the box, the wrapper, etc.

Draft refers to the wastage which is made in handling goods and for defects of tare, such as leakage from bags, natural decay because of handling, etc.

Gross weight means the total weight, including containers.

Net weight denotes the weight after deducting tare and draft from the gross weight. A price is calculated on the net weight.

Consignment Account and Account Sale

Agents may be appointed to sell goods on behalf of principals. If goods are sent to agents, pro forma invoices are sent along with the goods. Agents do not buy the goods. Expenses incurred by the agents are realised from the principals. The agents deduct money from the gross proceeds for recovering their expenses, including commission. Such a sale is called consignment accounts sale. The statement showing the details of gross sale proceeds,

expenses of agents, commissions, etc., is called the *accounts sale statement*.

Questions

1. Give the particulars usually stated in an invoice. What is a Draft? Is it of an invariable quantity? (B. Com., Agra, 1960).
2. Explain *Caveat Emptor*. Explain the distinction between Condition and Warranty.
3. What do you understand by Tare and Draft?
4. What is a Pro Forma Invoice? Describe some examples of its use.
5. Explain Debit and Credit Notes.

CHAPTER XVII

MAIL-ORDER AND OTHER TYPES OF RETAIL TRADE

The scope for the mail-order type of retail trade is limited. In this type of trading buying and selling are done by post. Sellers advertise their goods and send them to buyers by post, and the latter buy through the post. No personal contact is made in this type of business.

As buyers purchase a commodity through the post and do not inspect the goods personally, they rely on information which they get from the seller's description, recommendation and advertisement. It is, therefore, suited to commodities which can be graded.

Customers can obtain a commodity by writing to the seller without going to a shop. It saves expenses and troubles of customers.

As selling and buying are done through the post, sellers do not maintain an expensive establishment, shops, or salesmen.

This type of business requires expert drafting of sales letters. As letters are issued to buyers a reply should be attended to carefully. If an enquiry is made, this query should be pursued carefully.

A mail-order business may be useful in some lines.

Disadvantages

In this business there is no personal contact between a buyer and a seller. As a buyer purchases an article by description, he has no chance of examining it personally. So unscrupulous sellers may take advantage of the public. Advertisements and appeals made by this type of business are stereotyped and hackneyed, and they cannot, therefore, suit individual tastes and aptitudes. In a retail shop if a customer does not buy a commodity it is easy to ascertain his mind. In a mail-order business it is not possible to know the reason why a customer does not buy the goods.

Organisation

In such a business there is no necessity for stocking a big amount of goods. It is possible to obtain supplies according to orders.

It is common to sell old stocks by mail-order business. A publicity campaign is made to sell the old articles.

In order to achieve success, two factors, namely (a) selection of customers and (b) careful and scientific publicity, are necessary. Buyers' lists must be made out. It may be done from various sources, such as Official Gazette, Thacker's Directory, Telephone Guide, list of motor car owners, etc. Advertisement and publicity should be planned to obtain maximum results.

In a mail-order business payment is made on C. O. D. system. Cash is paid on delivery of goods. It is done by the Post Office through the V. P. post—value payable post.

The business has made progress in the United States of America. Its scope in India is great. One can do business with a small amount of capital, if one has the skill and energy.

Kinds of Mail-Order Business

There are three types of mail-order trade, such as (a) the manufacturing type in which producers sell goods directly to customers by post without requiring the assistance of middlemen. (b) The departmental type denotes mail-order business which is done by a departmental store. It helps sell old stocks by means of intensive and extensive advertising campaigns. (c) The middleman type of mail-order trade is done by retailers.

Fixed Price Shop

Retail shops may sell goods at a fixed price. Each commodity in the shop is sold at the same price. In the shop every article can be purchased at the same price of say annas six. Woolworths and Spencers in England and America are examples of such shops. There is scope for such shops in India, if they deal in cheap goods which are required for ordinary use. The advantage of the stores is that customers obtain many kinds of goods under one roof as in the case of a departmental store. There is no higgling and bargaining because the same price is fixed for all goods.

Questions

1. Discuss the causes of the growth of mail-order business in recent times. In what lines is this method particularly suitable?
(B. Com., Agra, 1959).
2. Discuss the nature of a Fixed Price Shop. In which line of goods is it likely to succeed?

CHAPTER XVIII

DOCKS AND WAREHOUSES

Economic Significance

Docks and harbours help expand shipping on a big scale for coping with increased demand from trade and commerce.

Storing or warehousing is important. If goods arrive at ports either from foreign countries, or for export they may not find ready space on ships, or they may not be despatched. They must be stored for some time. A special class of people keep goods in custody on behalf of producers, merchants and others, although people may store goods in their own warehouses. Storing requires careful handling of goods, so warehouses should be so built that they maintain quality and quantity of goods.

Warehousing is important for eliminating price fluctuations. If goods are stored they can be supplied to a market in instalments according to demand. Manufacturers produce in advance of demand, and they must have warehousing facilities.

Warehousemen take the responsibility of keeping and storing goods in order. They give ancillary services which help traders and manufacturers in many directions. They undertake to load and unload goods from ships, railways, etc. They use scientific and mechanical contrivances for handling goods. For example, suction pipes are used for grains, pumps for oil, cranes for bulky commodities, etc. It may not be possible for an individual manufacturer or a trader to buy and use such mechanical devices because of costs. Warehousemen may arrange for the carriage of goods which are transported either by cars or lighters. Those who are licensed to do so by means of cars are called licensed carmen, and licensed lightermen utilise lighters.

Bonded Warehouse

In the import trade commodities may have to pay duties before they are taken away from the docks. There are warehouses which are licensed and authorised by the customs authorities for storing commodities before the payment of import duties. Such

warehouses are called bonded warehouses. They may be Government or private warehouses. In the case of the latter, the Government supervises and controls them. Bonded warehouses enjoy certain privileges and advantages.

If commodities are warehoused in bond they may be inspected, handled, sampled, etc., by owners. They are shown in bond to buyers so that goods may be removed on the payment of duty. Packing, grading, blending, vattng, etc., may be done in the warehouse. The advantages are noticeable in the case of commodities which are meant for re-export. Owners are considerably assisted by the expert warehousemen.

Goods in bond enjoy other advantages. They may be removed from a bonded warehouse in instalments and a duty is paid only on the amount which is removed. For example, if fifty cars are in bond, they can be taken out gradually according to demand, and the duty is paid on each car as it is removed from the bond. This obviates the difficulty of paying the full duty on the total imports. So there is no necessity of blocking a big amount of capital in the shape of import duties.

As bonded warehouses enjoy special advantages they are also subjected to the supervision of the customs authorities. Before dealing with goods in bond in any way, special permission in the prescribed form must be obtained from the customs authorities.

Bengal Bonded Warehouse

The Bengal Bonded Warehouse is situated at 102, Clive Street, Calcutta. It is a public limited company, and was incorporated as "Bengal Bonded Warehouse Association, Calcutta" by special Acts of 1838 and 1854. The authorised capital is Rs. 13,50,000 divided into 2000 "A" shares of Rs. 500 each, 2000 "B" shares of Rs. 62.50 nP. each, 2000 "C" shares of Rs. 100 each, and 2000 "D" shares of Rs. 12.50 nP. each. All shares were issued, subscribed and fully paid up and carry equal rights. The association has been established for building and buying warehouses in Calcutta to store goods in bond.

Dock and Warehouse Warrants

Dock and warehouse warrants denote documents of title of goods. They contain the name of a person to whom, to the order,

or to the endorsement of whom goods are delivered. If dock warrants are issued it is implied that landing, loading or unloading charges have been paid. Freight is also paid, or its payment is arranged.

Prime Warrant

Prime warrant denotes a single warrant which is issued for a number of packages or for the entire quantity of goods. It is issued, if an owner wants to raise money on the hypothecation of the goods.

Dock and Warehouse Receipts

Dock and warehouse receipts are acknowledgements of the goods, and they do not convey any title to the goods.

Delivery Orders

A dock or warehouse warrant gives the right of title to the goods. If a portion of the goods is to be removed, an owner issues a delivery order, stating "deliver such and such goods against this sub-order", and the warehousemen deliver the goods as specified in the order to a person who is named in a delivery order, or to his order.

Warehousing in India

In India the scope for constructing warehouses is great. Possibilities of warehouses are good, especially at ports and in rural areas. Warehouses will add to the country's wealth by improving marketing, especially of agricultural products. At present a major portion of the price which is paid for agricultural products, is usurped by the middlemen. It happens because cultivators are unable to store goods which they are compelled to sell immediately after harvest. So they get low prices. The entire harvest is brought to the market at one time. The middlemen or millowners buy agricultural products after harvest and store them. The agriculturists' position can be improved, if they are provided with facilities for warehouses. Possibilities of building co-operative warehouses are quite good. In Madras many warehouses have been built for groundnut. They are managed either by the Government or by the co-operative societies.

Questions

1. What is a Bonded Warehouse? What are the advantages of Warehousing?
2. Docks and Warehouses are essential adjuncts of modern trade. Discuss.
3. Discuss the possibilities of Warehouses in India, and describe the constitution of the Bengal Bonded Warehouse Association, Calcutta.

CHAPTER XIX

THEORY OF INTERNATIONAL TRADE

International Trade

Every country produces commodities in which it is efficient. Later it exchanges them for products produced by other countries. International trade is an application of the division of labour on world basis.

Theory of Comparative Costs

International trade contributes to maximum economic well-being of world because of the principle of comparative costs. In the theory of comparative costs, costs of producing different commodities in many countries are compared. Every country specialises in the production of a commodity in which its costs of production are favourable. It may be that a country, which produces a commodity may have superior advantages in the production of another commodity, compared with some other country but the former leaves the production of the latter goods to a less efficient producing country. It happens if the more efficient country specialises in producing more valuable products. For example, if A can produce 10 units of artificial silk and 8 units of wheat for an expenditure of Rs. 10 and B can produce 8 and 6 units respectively, under the theory of comparative costs it will increase the economic prosperity if A produces artificial silk, leaving B to produce wheat. Artificial silk being more valuable, A will do better if she spends all the resources for producing artificial silk than if she spreads her resources over the output of both artificial silk and wheat.

Infant Industry Argument

The flow of international trade is restricted by many factors—economic, political and social. It is argued with good reason that the principle of comparative costs has had no trial, especially in view of the new and underdeveloped countries, such as India

and China. Comparative costs of production are not absolute. In a country like India in which industrial development is in a nascent state it is not possible to obtain ideas of costs in a comparative sense. If new industries develop fully, such estimates can be made. If Indian industries are allowed to grow initially by protective moves, they may prove to be justified later. So demand is made to protect the new industries during the initial period under the infant industry argument. If industries are allowed to attain maturity, they may compare favourably with those of other countries. India helps industries by discriminating protection. As a result industries, such as the cotton mill, iron and steel, sugar and match, have grown.

Economic Nationalism

Apart from economic factors, international trade is restricted by political reasons. Nations are suspicious of one another, and no country likes to depend on another for resources. This has caused economic nationalism. Countries try to reduce international trade to the minimum, and economic self-sufficiency is aimed at, especially in the key and war industries.

Trade Agreements and Quotas

- International trade is regulated and controlled. A country may shut out imports by prohibition.

Imports can be restricted. Countries regulate foreign trade by agreements. Bilateral trade agreements are made between two countries. For example, the Indo-Japanese trade agreement is an example of a bilateral trade pact. The Ottawa trade pact is an example of a multilateral trade agreement in which several countries are parties to an agreement for regulating trade.

Countries regulate trade on the basis of quotas. In a trade agreement contracting countries are given quotas of imports and exports. For example, under the Indo-Japanese trade pact, Japan exports to India a fixed amount of cotton piecegoods in exchange of her offtake of a fixed amount of Indian cotton.

The Most - Favoured - Nation Clause

Imports are restricted by import duties. Countries can levy differential import duties on the same commodity flowing from different countries, one country paying a higher import duty than

another. In that event countries enter into a trade pact by means of a most-favoured-nation clause. Under such a clause countries who are parties to it pay the minimum import duty. If the import duty is reduced the most-favoured-nation agreement countries obtain equal and proportionate reduction in the import duty on their goods.

Chambers of Commerce

Chambers of Commerce, consisting of manufacturers, financiers, merchants, etc., are important. They are voluntary associations, and they exist for benefiting their members.

In Calcutta, the Bengal Chamber of Commerce, the Indian Chamber of Commerce, the Bengal National Chamber of Commerce and other Chambers do useful work. They supply useful and helpful trade information, assist their members in trade and business and they aim at maintaining a standard of honesty and integrity among members.

Chambers of Commerce help to enlighten the public on economic matters. If the Government proposes to initiate any legislation about trade and commerce, Chambers of Commerce ventilate their views and present a united front to the Government from the commercial community for safeguarding the interests and rights of the business community.

With the growing complexity of industrial and commercial organisations, employers and businessmen, in general, find it necessary to adopt a wide variety of highly specialized organizations designed to promote their particular and sectional interests. A Chamber of Commerce is not in that sense a very highly specialized institution. It is a compendious, comprehensive kind of organization; including in its membership firms engaged in trade generally, irrespective of what particular goods they deal in, and large manufacturing industries and employers of industrial labour.

In recent years this comprehensive character has become so marked in India that most of the leading Chambers have found it necessary to add the words "and industry" to their titles to indicate that they are concerned not only with purely commercial interests but also with the manufacturers and the industrialists.

Regarding the routine functions of a Chamber, it should supply its members with information and advice on subjects

which are likely to affect their business activities. To a very large extent, it means that a Chamber must keep the members fully acquainted with legislation and Government notifications which impinge on the business world. It should also assist them by interpreting Government enactments and advising on how they should be applied. In performing its functions it no doubt takes the assistance of the best legal advice available. It consults the Government on ambiguous or controversial points of interpretation.

An important advisory function is to give advice concerning labour practices and disputes. The law relating to labour in India now constitutes a very formidable corpus of highly technical rules and regulations, and its application calls for expert advice.

Another function is to represent to the Government the grievances of the members. A Chamber could effectively discharge its functions, if it enjoyed a high degree of public confidence.

Advantages of International Trade

International trade helps produce commodities at the cheapest possible cost. It adds to world productive capacity. Every country obtains its requirements under advantageous conditions.

International trade helps a country obtain commodities which it cannot produce. The exchange of commodities brings about a common feeling of union, and ensures peace and happiness in the world.

International trade brings into its orbit a wider area of supply and demand. It leads to stability in prices.

Disadvantages of International Trade

The concentration of industries in one area may create difficulties. It is possible that a country having the advantage of a start may prosper at the cost of another country which has potential advantages for production. International trade may encourage unfair competition by means of dumping, subsidies, and similar other measures. It may lead to the exploitation of a country's vital resources, such as iron, coal and ores.

Balance of Trade

In the domestic trade transactions are closed by cash or cheques, as the domestic currency is commonly accepted. In international trade an importer must pay a foreign exporter by means of foreign money. So the practice is that a foreign exporter draws a bill on an importer, which is accepted and paid by the latter. An importer can pay an exporter by a bill which is drawn upon some one residing in the exporter's country. An importer may also pay an exporter by means of gold. As the latter method of payment is expensive, the payment is usually made by means of bills of exchange.

In international trade a country pays for its imports by means of exports. Imports and exports of a country should balance, and such a balance is considered healthy. If exports and imports of a country do not balance some factors are brought into play to effect a balance. If there is no balance the difference may be equated by means of gold. As the income of an individual should be equal to his expenditure, so what a country can buy depends on what it can sell. An individual earns an income by selling goods and services. He can spend what he earns. A country also earns income by selling goods and services. It can therefore spend only what it earns. Imports should balance exports.

Cyclical Trade Fluctuations

In business periods of prosperity and depression follow alternately at regular intervals. Trade boom and depression move in cyclical fluctuations. It is difficult to explain the reason why the phenomenon happens.

W. S. Jevons tried to explain the trade cycle by means of the "sun spot theory". There are periods when spots in the sun reach the maximum. The failure of crops depends on the movements of the spots. Jevons attempted to connect the cyclical trade fluctuations with physical causes. Such an explanation is not enough. It may be true that spots of the sun influence the crops, but it does not explain why and how trades and industries are affected. If a depression sets in it spreads to all industries, but the failure of crops cannot by itself cause a depression in trade and industry. When it affects trade it takes time to do so.

Not a single cause can be found for such a phenomenon. It is due to many factors. It is not difficult to explain the cause of a depression in a particular industry, but it is difficult to explain the cause of a general economic depression.

The trade cycle is psychological in character. Trade and industry are linked up with one another. Production in one industry is consumed by another industry. Consumers of one commodity are producers of another commodity. So all kinds of production can be consumed, if there is prosperity in all directions. If production is not sold and consumed a depression sets in. Prices fall, profits decline, production is curtailed, unemployment begins and a vicious circle is created.

Production is done in anticipation of demand. If leaders of industry anticipate good demand they start producing in big quantities. Their examples are followed by the rank and file. A feeling of optimism begins to prevail. There is greater production in all directions, prices go up, profits rise, employment increases. Everybody feels that there is good time ahead and a boom begins. If leaders of industry anticipate a bad time they act pessimistically, others follow and a depression sets in.

Bankers' credit and illegitimate speculation may accentuate cyclical fluctuations. By an extension or a restriction of credit bankers can influence production to a great extent. Trade and industry expand on the basis of optimism so long as bankers allow credit. If banks start restricting credit a brake is put on production, and a depression begins. Illegitimate speculators cause fluctuations by wrong calculations and anticipations. So banks and speculators can regulate and control fluctuations to a considerable extent by cautious and prudent policies.

Questions

1. What is meant by 'Balance of Trade'? Is a favourable balance of trade always a sign of prosperity? Discuss fully. (B. Com., Mad., 1960).
2. Explain clearly the difference between Industry and Trade. What do you mean by International Trade? Fully discuss its utilities. (B. Com., Cal. 1956).
3. What is a Trade Cycle? Analyse the causes of cyclical fluctuations of trade.

4. Describe in detail the Infant Industry Argument.
5. How International Trade is now regulated? What is the Most-Favoured-Nation Clause?
6. Describe the various institutions for the furtherance of trade and examine their importance in the development of India's trade.
(B. Com., Cal., 1951).
7. How can the Chambers of Commerce be helpful in the development of business?
(B. Com., Cal., 1952).

CHAPTER XX

EXPORT TRADE

The foreign trade of India has been heavily regulated during the past few years in order to improve the balance of payments position. India has been running deficits on her external account for a long while. All rules and regulations concerning the foreign trade are directed towards improving the earning of foreign exchange. As far as exports are concerned, they are being encouraged in order to increase earning foreign exchange. Except for a few items most of the exports are permitted freely. But all exports are checked and exporters are required to furnish detailed information to the Government in order to apprise it of foreign exchange earnings from various sources. In the case of some items, such as cotton textiles, iron and manganese ores and agricultural commodities like raw jute, raw cotton, linseed, groundnut etc., exports are to be made on the basis of quotas. Exporters are therefore required to obtain quota certificates from the Government under which exports are permitted.

Imports are subjected to many restrictions as they involve the expenditure of foreign exchange which is in short supply. Before an import can be made, an importer has to obtain a licence from the Government of India and imports can be made only on the basis of licences. Import licences are generally issued after the Government is satisfied that the importer has made the necessary arrangement with the foreign supplier. After obtaining the import licence an importer must arrange to obtain the necessary exchange which is sanctioned by the Exchange Control Department of the Reserve Bank of India subject to the overall approval of the Government of India. After obtaining the necessary import licence and arranging for the necessary foreign exchange imports are made.

The procedures for exporting and importing are discussed in the following chapters.

Export Procedure : The Order or Indent

The first step in exports is to get an order or indent for goods which are to be shipped to foreign buyers.

The term "indent" arises from an old custom. Formerly an order used to be made in more than one copy and every copy was indented or torn at the edge. It was done for keeping an identical copy of an order. This practice is no longer in vogue as exact carbon copies of an order can now be made by mechanical devices.

An indent should contain full and detailed information about (a) goods required, their quality, quantity, size, marks, etc., (b) price, (c) packing and shipping instructions, (d) date of shipment and (e) methods of reimbursement.

An indent may be "open" or "closed". It is called open, if an importer gives an option to a buyer in an exporting country relating to goods, prices and marks, etc. In a "closed" indent the exact description, price, quality, etc., of goods are given, and a buyer in an exporting country acts merely as a medium.

If an importer mentions the price of a commodity in an indent, it may not be acceptable to an exporter. In such an event an indent may pass backwards and forwards until it is finally accepted by both the parties. A final or a "confirmatory" indent is made for finalising the order.

If an indent is accepted finally by an exporter, arrangements are made for the shipment of goods.

Freight

An exporter or a shipper books freight on convenient terms and obtains a shipping order from an owner or agent of a vessel in which goods are transported. A shipping order means a contract to transport commodities on board a vessel from one place to another in exchange of the freight. It conveys an order, or advice from an owner or agent of a vessel to its Commanding Officer for receiving goods on board a vessel from a party who has contracted to ship the goods. A shipping order should bear the requisite stamp. The exchange rate for the freight is the same as the rate for demand drafts, as fixed by the Bengal Chamber of Commerce in Calcutta. The freight on measurement cargo is ascertained from the licensed Measurers' Certificates which are presented along with bills of lading to an owner or agent of a ship. A ship, or a portion of it may be hired by means of a Charter Party.

Letter of Credit

If an order is accepted, an exporter wants from an importer a letter of credit which can be arranged through a banker. Credit is confirmed and irrevocable. If reputation of a foreign buyer is high, a bank reference is adequate for the purpose of exporting goods to him.

A deposit or even the full payment of the price may be demanded before shipment, especially in the case of new buyers.

Exchange

An exporter fixes the foreign exchange with a bank. If an exporter is paid by an importer in foreign money, an exporter must be sure of exchanging the foreign money at a fixed rate in terms of his own currency at the time of receiving the payment. He can do so by contracting with a bank to exchange the foreign money at a fixed rate. Otherwise he faces the risks of fluctuations in foreign exchange. It is the practice of shippers to arrange with a bank that for a particular period, say a month, he will be allowed a fixed rate of exchange for a certain amount. An exporter can make sure of his payment by buying forward exchanges.

Insurance

An exporter arranges to cover goods against maritime risks by means of a marine insurance policy. An exporter pays the premium and requests the insurance company to issue a policy which is given in triplicate. If the contract rate is C.I.F. or F.O.B., an importer may arrange for insurance himself.

Shipment

Arrangements are made for the shipment of goods.

Permit of Collector of Customs

An exporter should obtain the permission of a Collector of Customs to export by filling a Customs House Challan and by observing other formalities.

Commissioners' Charges

As soon as the time of departure of a vessel is notified, an exporter should pay river dues and other charges, such as the Port Commissioners' Shipping Charges at the office of the latter and obtain a receipt.

Certificate of Weighment

A shipper receives two copies of the Certificate of Weighment, issued by the Measurers' Superintendent of the Licensed Department of the Bengal Chamber of Commerce, especially in the case of jute exports. One of them is sent to the consignee and another is retained by the shipper.

Customs Formalities

A shipper must sign a Customs Challan for the purpose of noting in the Customs House and for the payment of an export duty, if any. Noting means recording goods which are dutiable or not in the Customs Register which keeps record of exports. The Licensed Clerk or the Jetty Sircar fills the Customs Export Challan or Pass for the shipment of goods and gets it countersigned by the exporter. The Customs Challan is called the Shipping Bill for dutiable or free goods, or it is called a Shipping Bill.

The Challan must be filled in duplicate and the original copy must be filed with the Calculator in the Export Department of the Jetty Collection Office for the payment of the Port Commissioners' Shipping Charges. The Calculator puts down on it the amount payable and hands it over to the Cashier by his side. The Cashier informs the Sircar of the amount which is to be paid. After payment a receipt is issued. It is attached to the original Shipping Bill and all documents are returned by the Cashier.

The rotation number of the ship in which goods are to be loaded should be put down in the shipping bill. A Notice Board

is found in the Customs House, giving the rotation number of the ships which are due to sail.

The shipping bill in original and duplicate should be filed in the Customs Export Department along with a receipt acknowledging the shipping charges. The Export Calculator puts down the amount of the export duty, if any, on the original shipping bill which is sent to the Accounts Department. There an account number is given to it. The Bill is taken to the cashier in the Cash Department. On receiving the amount paid for the duty, the Deputy Cashier issues a receipt. The receipt is given in a special form which is supplied free. The practice is for the Jetty Sircar to fill the form and attach it to the bill before presenting it to the cashier for payment of the duty. The duplicate shipping bill is obtained from the place where the original and the duplicate shipping bills are filed in the first instance.

The duplicate bill is presented to the Customs Office at the Docks where the ship waits or to the Preventive Officer on board a vessel if the latter is found at the Jetty.

After receiving the duplicate bill from the Customs office at the Docks or from the Preventive Officer, the Jetty Sircar, or an agent of an exporter goes to the Docks with the Shipping Bill, the shipping order and the Customs Export pass. Commodities may be put on board a vessel either from the Jetty, or directly from boats loaded with cargo by the side of the ship.

If goods are put on board a vessel through the Jetty, a Jetty Challan or a Shipping Challan is filled and the Superintendent in charge of the Jetty gives permission for shipment after all Jetty charges are paid. The shipping order is given to the ship's clerk, the Customs Pass is sent to the Dock's Customs Office and the Jetty Challan is passed to the Shed Foreman or the Export Shed Officer who receives commodities and issues a receipt. The latter is exchanged for a Mate's Receipt which is obtained from the Collection Office at the Jetty.

If commodities are put on the ship directly from boats, the shipping order and the Customs Pass are sent directly to the Chief Officer of the ship and he issues a receipt called a Mate's Receipt.

SHIPPING BILL FOR DUTIABLE GOODS

(Original)

C. H. No. 414.

Calcutta.

ROTATION No. 275-76.

| Name of vessel | | Master or Agents | | Colours | | Port at which goods to be discharged | |
|----------------|--|------------------|--|---------|--|--------------------------------------|--|
| Packages | | | | | | | |

| Number and description | Marks and Numbers | Quantity | Description | Real value as defined in the Sea Customs Act | | Duty | | Country of final destination |
|------------------------|-------------------|----------|-------------|--|--------|------|--------|------------------------------|
| | | | | Rate | Amount | Rate | Amount | |
| | | | | | | | | |

I hereby declare the particulars as given above to be true.

Exporter's Name, Address and Signature.

Dated.....

*Signature of Agents if Acting for Exporter.***Dock's and Mate's Receipts**

If an indent is accepted by an exporter arrangements are made for the shipment of goods.

If goods are delivered to the docks, a dock's receipt is given for the goods. If goods are placed directly on board a vessel, a receipt for goods is issued either by the Chief of the ship called the mate of the ship, or by someone on his behalf and the receipt is called a mate's receipt.

Both dock's and mate's receipts are to be exchanged for a bill of lading.

MATE'S RECEIPT No.....

No.....

NOT RESPONSIBLE FOR
COUNTERMARKS AND
NUMBERS.Subject to the Provisions
of the Indian Carriage
of Goods by Sea Act,
1925.

cwts. qr. lbs.

gross

nett.

Tons.....

at the rate of.....per
40 cft.
ton of.....cwt.Amount of Freight.....
£.....

@ ex.....

Rs.....

SHIPPED, in good order and condition, by
.....on board the Ship
.....whereof is Master for this
present voyage.....lying in the
port of CALCUTTA with liberty to discharge and
receive goods and passengers, to take in coal
or other necessary supplies at any intermediate
Port or Ports, to sail with or without Pilots, to
tow and assist vessels in all situation of
distress.

.....being marked and numbered as
per margin; and to be delivered, subject to the
exceptions and conditions hereinafter men-
tioned, in the like good order and condition.
from the ship's tackles (where the ship's res-
ponsibility shall cease) at the port of.....
or so near thereunto as she may safely get, unto
.....or to
his or their assign. Freight for the said goods
at the rate of.....per
ton of.....to be paid by
.....at.....in cash
without deduction, ship lost or not lost.

It is expressly agreed that the General Average
will be settled according to the York Antwerp
Rules, 1924. The statement of General Average
will always be drawn up at the port of Trieste
or Genoa, at shipowner's opinion.

The following are exceptions and conditions
above referred to:

Weight, measure, quality, contents and
value unknown.

The Act of God; the King's enemies,
pirates, robbers by land or sea, etc.

The Ship is not liable for insufficient
packing or reasonable wear and tear of
packages, etc., and several other con-
ditions.

In WITNESS whereof the Master or Agent of
the said Ship has signed.....
Bill of Lading, exclusive of the Master's copy,
all of this tenor and date, one of which being
accomplished the others to stand void. Dated
at Calcutta, on.....19 .

.....Signature of
Agents of Steamship Company.

Bill of Lading

If goods are in docks or in a ship, an exporter prepares bills
of lading and invoices and he insures the goods against marine
and other risks in transit.

In a bill of lading an exporter should incorporate the follow-
ing information, namely (a) name of a ship, (b) place of loading

and destination of goods, (c) description of goods, (d) date, (e) freight and (f) name of a consignee.

After filling the particulars an exporter sends a bill of lading to a steamship company. Dock's and mate's receipts are sent along with a bill of lading. Later a steamship company prepares a freight note and sends it to an exporter. The latter either pays freight or its payment is arranged. A steamship company scrutinises carefully a bill of lading, checking every detail given by an exporter and returns it to an exporter. It is countersigned by a master of a vessel (which will carry goods) or by somebody on his behalf, together with a freight note, if freight is paid in advance. If freight is paid at destination, a bill of lading is marked "freight forward". In that event a shipping company or any of its agents will give an importer a freight note and stamp a bill of lading with a "freight release", if freight is paid. Goods are delivered on arrival.

If a bill of lading is signed by a master of a vessel or by his representative, it is a clean bill of lading. It becomes a foul bill, if it is signed with a remark, such as "goods damaged". As the latter kind of a bill may give trouble, an exporter insists upon getting a clean bill of lading. He gives a letter of indemnity to a steamship company, undertaking to indemnify the latter against any claim of damages against a company for getting a clean bill.

A bill of lading is an important document. It is an official receipt by a steamship company for goods which are to be shipped. It carries the name of a consignee to whom or to whose order goods may be delivered. If no name of a consignee is mentioned, an exporter may consign goods "to order" and may endorse it for expediting the release of goods at destination. As a bill of lading carries the name of a consignee, it is a document of title to goods. No goods from a ship can be delivered except on the production of a bill of lading. As it is a document of title to the goods it is transferable by endorsement and delivery.

As discharge of goods is not possible except by a bill of lading, care is taken to see that an importer gets it in time for taking delivery of the goods. Five copies of a bill are made, each carrying a reference to another. Three are signed and stamped. Two or three of them are sent by different routes or means to an importer, who may be assured of getting at least one

of them in time. One of the unsigned copies is retained by a master of a ship. It is called a "Master's Copy".

Freight and Primage

A shipping company makes a bill of freight which is paid, or its payment is arranged before the delivery of the shipping documents, such as a bill of lading, mate's receipt, etc., to an exporter. A freight bill is called a freight note. In addition to calculating freight on the basis of the tariff rate of a shipping company, a charge, equivalent to 10 per cent. of freight, is added for the supervision of loading. The charge is called primage, and is included in freight. Formerly it was paid to the captain of a ship.

FREIGHT NOTE

Calcutta, 5th July, 1962.

MESSRS. DUTT & Co., 2, Hare Street, Calcutta.

DR. To The P. & O. Steamship Company, Ltd.

| J.E. | | Mds. | Srs. | Chks. | Rate | Freight | | | Total | | |
|----------|-----------------|------|------|-------|----------------|---------|-----|----|-------|-----|-----|
| | | | | | | Rs. | As. | P. | Rs. | As. | P. |
| Hongkong | 10 Mds. of rice | 10 | | | 8 Ans. per Md. | 5 | ... | | ... | 5 | ... |

Invoice

An exporter prepares an Invoice, containing particulars of goods, such as the description, quality, price, marine insurance policy, payment either D/P, D/A or D/D and the name of a bank, if any, as per letter of credit which is opened in favour of an exporter by an importer. An invoice is made in four copies, two of them being sent to an importer through a bank along with other documents relating to shipment of goods. A copy is sent directly to a consignee and the fourth copy is retained by an exporter.

An invoice is a written statement which is sent by a seller to a buyer, stating quantity, quality, price and character of goods.

A merchant sends goods to an agent who is authorised to sell them on his behalf. An agent sends an account of sales to a merchant. In that event a merchant sends a specialised form of invoice, called a *pro forma* invoice, to an agent, stating quantity, quality, description, etc., of goods. Price particulars which are given are an indication of the prices, at which an agent is expected to sell. Prices at which an agent sells may be lower or higher than the *pro forma* invoice quotations.

INVOICE

N. 3/389.

INVOICE from GHOSH & Co.,

To R. C. Dutt, Esq.....

for 7 (Seven) Cases tea.....

Shipped per S.S. "GOGRA" to Linga.....

Drawn @.....

Calcutta, 6th September, 1962.

| Mark. | Description | Rs. A. P. | Rs. A. P. |
|----------|-------------------------------------|-----------|-----------|
| H.A.G. 7 | Cases tea, each case containing | | |
| 115 | 100 packets of 500 grammes each | | |
| Linga. | total 700 packets=775 lbs. @ -/11/- | | |
| | per lb. | | 557 0 6 |
| | Brokerage @ 1 per cent | | 5 9 2 |
| | | | <hr/> |
| | | | 562 9 8 |

CHARGES

| | | | |
|-----------------------------|-----------|---------|--------|
| Packing, Marking & Shipping | ... | 29 12 0 | |
| Freight and Stamp | ... | 29 0 6 | |
| Insurance | ... | 5 11 0 | |
| Port Commissioners' Charges | ... | 2 14 0 | |
| Commission 2% | ... | 11 4 0 | |
| Certificate of Origin | ... | 4 0 0 | 82 9 0 |
| | | <hr/> | <hr/> |
| | Total ... | 645 3 2 | |

(Rupees Six hundred forty-five, annas
three and pies two only).

E. & O. E.

Per Pro. GHOSH & Co.

Bill No.....negotiated with.....
 Freight paid in Calcutta.
 Insurance covered by.....ourselves.
 Letter of Credit No.....Dated.
 Bill of Lading No.....Dated.

SPECIMEN INDENT

Indent No. 206 2 Church Lane, Calcutta.
 MESSRS. JOHN & Co., 17th July, 1962.
 12, Leaden Street, London, W. 1.

Dear Sirs,

Kindly buy and ship on our A/C. the following commodities:
 Delivery C. I. F., Calcutta.

Payment: Draw D/A. through the Mercantile Bank of
 India Ltd., Calcutta.

Ship. By P. & Co.

Delivery before 15th Nov., 1962.

Yours faithfully,
 Roy & Co.

| No. Gr. Quantity. | Description. | Price or Quality. | Remarks |
|----------------------|-----------------|----------------------|-----------------|
| 12 doz. | Parker Fountain | "A" quality | |
| 4 " | Pen (Duofold) | | |
| 50 " | Motor cycles | "Sunbeam" | |
| 30 gross | (B.S.A. make) | mark | Put on the mark |
| | Attache Cases | Suede | "Roy & Co." |
| | Pencils | Red and Blue | Put on the mark |
| | | Lead | "Roy & Co." |

INVOICE

Telegram Address: Goso. 5, Church Lane,
 Codes Used: A.B.C. (6th Ed.). 17th July, 1962.
 MESSRS. DICKSON & Co., Calcutta.
 Bought of GHOSH & Co.,

General Merchants & Exporters.

Goods shipped per S.S. "Gondola" of P. & O.S.S. Line.
 on 15th August, 1962.

Bill No.....negotiated with the.....

Freight.....

Insurance covered by.....

Bill of Lading

R/Receipt

No.....Dated.....

Letter of Credit No.....Dated.....

Bill of Exchange

An exporter realises the amount of an invoice from an importer by drawing a bill of exchange either on an importer or his banker (if so arranged by a letter of credit). A bill of exchange is accepted and paid in due time by the drawee.

An exporter obtains payment by drawing drafts on an importer in the shape of bills, which may be D/A or D/P bills, with documents, such as bills of lading, insurance policy, invoice and other documents. In the case of D/A bills, documents, enabling the delivery of goods, are delivered to an importer on acceptance of a draft which carries an order to pay for the goods. In D/P bills documents are given to an importer after payment is made to an exporter directly or to his order. An exporter realises payment through a bank which sends and presents drafts along with other documents to parties. If bills are sent without any document, they are called clean bills.

Documents, such as a certificate of origin, consular invoice, etc., are prepared, if they are required.

Foreign Buyer Informed

A foreign buyer is informed, if goods are despatched. The name of a ship, the date of arrival of a ship, etc., are indicated to him.

Letter of Hypothecation

An exporter may obtain payment immediately after the shipment of goods by discounting the drafts with a bank and by endorsing the latter in favour of a bank. In that event a bank

takes a letter of hypothecation which is signed by an exporter. The letter gives the details of the drafts. If a draft is not honoured by an importer, a bank is authorised by a letter of hypothecation to sell the goods. If the sale price does not cover the full amount of a bank's advance to an exporter, a letter of hypothecation provides for the payment of such differences. Banks demand a letter of hypothecation and a letter of credit before discounting documentary bills.

Presentation and Collection of Documentary Bills

If a documentary bill is discounted by an exporter, a discounting bank will forward it to its branch or agent situated in the importing country. On receipt of a documentary bill, a branch or an agent informs a foreign buyer, and requests him either to accept or pay a bill whether it is a D/A or a D/P bill. On acceptance or payment of a bill, documents are handed over to an importer who takes the delivery of the goods. If a bill is payable after acceptance, it is presented to a drawee or his authorised agent for payment on the due date.

Questions

1. Give some account of the rise and growth of India's export trade in Jute and Jute manufactures and indicate the organisation of the jute export trade. (B. Com., Agra, 1960).
2. You are an exporter of stationery, and have received an order from Melbourne for your stock line, value, say £1,000. State the procedure you would follow in getting the goods to your customer in Melbourne. (B. Com., Mad., 1959).
3. Make out an export Invoice (loco.) for the following goods, sold by Lucius Curties & Co., Manchester, to Monsieur Fonzes, Marseilles—8 cases 45 pcs., each 34" white shirtings (patt. No. 326) at 6s. 6d., per piece. Packing 6s. per case. Carriage to London and freight (through rate) at 22s. per steamer ton and 10% primage. Each case measures 3' 2" x 2' 4" x 1' 11". Marine Insurance F.P.A., 3s. 6d. for 10% over invoice value and charges, 4s. 9d. Shipped from London per s.s. 'Marsala'.
4. Draft a D/P interest bill at 3 m% s. on H. C. Banerjee, Calcutta, for £250 12s. 9d. value hardware, shipped by S. Jones & Co., of London, on the 9th of March, 1924. Explain the object of this form of draft. Cannot this object be served in any other way? (B. Com., Cal., 1956).
5. Describe the export procedure of goods from India.

6. What is a Bill of Lading? Describe its importance in Foreign Trade.
7. What is a freight note? What do you mean by primage?
8. What is meant by the term "Trade Commissioner"? How are the commercial interests of India represented in countries where there are no Trade Commissioners for India? (B. Com., Cal., 1943).
9. Write notes on the following:—
 - (a) f.o.b., and c.i.f. prices.
 - (b) Bonded Warehouse.
 - (c) Negotiable Instrument. (B. Com., Cal., 1943).
10. The export of merchandise is said to be undertaken by three different types of Commercial Houses, namely, (a) Manufacturers or Wholesale Merchants, (b) Commission Agents and (c) Packing and Forwarding Agents. Explain in brief the exact portion of work undertaken by each of them. (B. Com., Cal., 1944).

CHAPTER XXI

IMPORT TRADE

Indent Business

Traders in India import foreign goods directly from manufacturers, or they may import through an intermediary. In the latter case, it is called Indent Business.

Indent firms act as intermediaries in the import trade. They obtain orders of foreign goods from dealers, send them to their foreign agents who send the goods to India. Profits of the indent firms consist of two elements, namely (a) ordinary commission allowed on the total price of goods and (b) the difference between the price paid by a dealer to an indent firm and the price at which goods are bought from foreign manufacturers. An indent firm may take an order from an Indian dealer at a high price and buy the commodity at a lower price in the foreign market. In that case it takes the price difference. An indent firm informs a dealer about the source of the goods.

In indent business the procedure is that an indenter fills an indent form and sends it to an indentee. If prices of an indenter are not acceptable by an indentee, the indenter is informed. In that case prices are settled by higgling and bargaining. After the receipt of an indent, an indentee is allowed four weeks within which he informs whether he accepts an indent. Six months' time is given to an indentee for shipping the goods, and option is given to an indenter to cancel a contract in the case of delay. Commodities are shipped at the risk of an indenter who pays the marine insurance premium covering the goods. If commodities arrive at the port of an indenter, relevant documents are delivered to him on acceptance or payment of a bill of exchange. If payment is not made, an indenter remains liable for any loss to an indentee. If goods do not satisfy the specifications as given in an indent, an indenter may make his claims within fourteen days of the receipt of the goods. A dispute between an indenter and an indentee is settled by means of arbitration.

An indent firm may obtain the goods from manufacturers

directly, some agents, or their own representatives. If goods can be supplied at a lower price than is offered by an indenter, the price difference is retained by an indentee.

It is true that profits are made by middlemen of the indent firms but there are also advantages in that trade. The Indian dealers have little knowledge of the foreign markets, nor can they afford to keep their own agencies in the foreign countries. The indent firms are specialists in the import trade. They know the foreign markets. They have got their own agents who buy at the best possible prices. The indent firms arrange the transshipment of goods to India without difficulty. The indent trade has shrunk as foreign manufacturers have opened their own branches or agencies in India, and they indent goods on behalf of the dealers.

INDENT FORM

Dear Sirs,

I/We hereby authorise you to buy or instruct your Agents to buy for my/our account and risk the whole or any part of the following goods on the terms and conditions as named below and we agree to pay you a buying commission of three per cent. for your service.

I/We hereby agree to take delivery of the goods on arrival direct from the Steamer and to pay all duties and charges incidental thereon and authorise you or your Agents to draw in sterling upon me/us for the total amount of the Invoice in a Bill or Bills of Exchange at London.

If the bill or bills be drawn in sterling I/we agree to pay interest on the amount thereof at six per cent. from the date of the relative Invoice to the estimated date of arrival of remittance in London and further bind myself/ourselves to accept such bill or bills on presentation without any pretext, excuse, objection whatever and pay the same at maturity. No interest is to be allowed to me/us on part-payment of such bill or bills. Should I/we fail to accept or to pay at maturity such bill or bills I/we hereby authorise you as well as the holders of bills to dispose of the documents or goods either by Private Sale or Public Auction on my/our account and risk, and I/we hereby bind myself/ourselves to make good any loss arising from such sale and all Sale Expenses and in addition a commission of 5 per cent.

for yourselves on the gross sale price waiving all claims to any advantage thereon and I/we agree to accept your Account Sales as correct and consent to the same being used by you or your Agents in any Court or Courts against me/us without further proof.

Provided always that I/we hereby agree that in spite of anything that may be written on this contract or elsewhere to the contrary, you have the absolute right to refuse to give me/us possession of the Shipping Documents relating to this order or the goods until I/we have paid for the same as well as for all outstandings.

Should the goods for any reason be shipped in more than one shipment or for any reason a part or parts thereof be cancelled or left out I/we shall make no objection to take them just as they may be shipped.

In case of any dispute, you or your Agents are to have the option of (a) cancelling this order, or of (b) submitting the matter in dispute to two Merchants or their Assistants or the Referee appointed by them, or of (c) submitting the matter to the Chamber of Commerce for arbitration under such rules as may at the time be in force, and I/we agree that the decision so arrived at shall be final and binding upon me/us.

Any claims or disputes whatsoever with respect to this order with regard to damage, shipment, deviation from samples, inferiority in quality or any other objections whatsoever are to be made in writing stating full particulars of complaint and the necessary arbitration fees deposited by me/us with you within 14 days from arrival of the goods, after which time all responsibility is to be on my/our account and no claim will be made by me/us after the aforesaid period of 14 days and if I/we make it, it shall not be valid.

When goods are ordered from specified manufacturers or manufacturers' agents I/we agree to take all risks connected with outturn both as to quality, delivery and in every other respect.

Any deviation from time limit not exceeding 15 days is not to be considered a breach of contract. All goods which have been delivered up to time at Port of Shipment, shall be accepted as actually shipped within the limit of time stipulated and, whatever your supplier writes in respect to this point is to be accepted as final.

In the event of fire, or strikes among workmen, or of the failure of your supplier to deliver through bankruptcy or any other reason, you or your agents are to have the option of cancelling this order, and in no case shall any action be taken against you or your agents for loss of profit or otherwise owing to late shipment, non-shipment or non-arrival of the goods.

All risk of damage to oilman stores or any other goods of a perishable nature are to be borne by me/us.

Goods to be insured F. P. A. unless otherwise stated. I/We bear any loss which may arise in consequence of goods insured F. P. A. arriving late, water damaged, etc. Any war risk premium which may be incurred, to be in all cases payable by me/us.

You or your agents are not responsible for any leakage or breakage of any sort.

Description of goods indented.....

Terms and Conditions.....

Yours faithfully,

Import Procedure : Indent or Order

An importer sends an order to a foreign exporter. Prices quoted in the order may be either "open" or "firm". If the price of an importer is not accepted, it may be settled later by bargaining.

Bargaining in international trade is done by code languages for maintaining secrecy.

In the import trade, a foreign exporter may demand a deposit, or even the full payment before the shipment of the goods.

Letter of Credit

An importer arranges with a bank for issuing a letter of credit in favour of an exporter.

Exchange

If an exporter draws a bill of exchange upon an importer in his own currency, an importer will book in advance the rate of exchange. An importer arranges with a bank in advance so that he can obtain the foreign money up to the extent of a bill of exchange for the domestic currency. He can also do so by buying forward exchange.

Bill of Exchange

An importer is informed by an exporter about the despatch of goods and the probable date of arrival of a ship at the port of import by an advice note. Meanwhile, a bill of exchange drawn by an exporter upon a drawee against the consignment of goods is sent to an importer through an exporter's banker. A documentary bill is presented by a bank to an importer either for acceptance or payment. Shipping documents attached to a bill are delivered to an importer for enabling him to take the delivery of the goods.

Delivery

An importer arranges for the delivery of goods, after observing the Customs formalities and procedures.

Having a bill of lading, an importer endorses it and forwards it to his agent for clearing the goods from the port. He may clear the goods directly through his own staff by issuing the necessary instruction. Freight and other charges are paid and some Customs formalities are observed before the clearance of the goods.

A Jetty Sircar goes to an importer's office with a Bill of Entry in original and duplicate, which must be filled for the payment of the import duty, if there is any. A Bill of Entry is filled from an invoice, bill of lading, and other documents. In it are entered not only the value of the goods as shown in the invoice, but also the market value of the goods, if a duty is leviable ad valorem (a duty payable according to the value). The market value of goods is taken as the basis of the valuation. If the market value is not available, an invoice value is accepted. If a duty is payable according to quantity, it is an easier process. In order to verify the correctness of the market value as given in a Bill of Entry by a Jetty Sircar, an Appraiser of the Customs House has many brokers for consultation in this respect.

Two sets of a Bill of Entry in original and duplicate, may be purchased from a Stamp Vendor at the Customs House by paying 100 Naye Paise. An importer may print his own Bill of Entry. A "Bill of Entry for Consumption" is the same as a Bill of Entry or a Customs Challan. It is a certificate filled by an importer, stating the nature, quantity, price, etc., of goods imported and

delivered to the Customs authorities. It states the place from where the goods are imported. No delivery of goods can be obtained from the Customs, unless a Bill of Entry is signed by a Collector of Customs.

Customs Formalities

A Bill of Lading must be endorsed by an importer and sent to an agent of a steamship company for the delivery of the goods, and the line number must be noted on it. It must also be noted on the Bill of Entry. Then the Jetty Sircar puts the rotation number on a Bill of Entry. He passes a Bill of Entry to a Noter of the department who scrutinises whether the goods are mentioned in an Import Manifest. A Noter then marks a bill as "noted" under his signature, and returns the bill to a Jetty Sircar. If goods are not dutiable, a Noter passes a bill to a Free Register Writer, who enters it in the proper books. A Register Writer asks for a duplicate, passes a bill to a Pass Examiner, who examines it and puts a stamp "Appraise and Pass" in black ink on a duplicate which is returned to an importer.

In the case of dutiable goods, a Bill of Entry is taken along with a shipment sample, an invoice, etc., to an Appraiser, who values the goods. He classifies the goods and examines whether a correct market value has been declared. He returns a bill for correction, if a correct value is not given. Later he puts on a bill the rate of duty payable and issues orders to a Jetty Examining Officer for opening the packages for appraisement. Then a Jetty Sircar notes on the bill the amount of the duty to be paid, and he takes it to a Calculator who checks it.

A Bill or Challan is registered in a General Register of Receipts in an Accounts Department, which puts an account number on it, and a Challan is signed by an Assistant Accountant-in-charge. Then it is presented to a Cash Department along with a Customs Receipt form duly filled by a Jetty Sircar. The Receipt form is available from a Stamp Vendor at the rate of three Naye Paise for two. Then the amount of the duty is paid to an Assistant Cashier who issues a kutchra receipt. Later a Cash Register Clerk enters the particulars of a bill in a Cash Register Book and notes the Cash Number on a bill. Then the Customs Receipt and the bill are returned.

ORIGINAL

For Custom House
orders only

BILL OF ENTRY FOR CONSUMPTION

| | | | | | | | | | | | |
|----------------------------|-----------------------|------------------|------------|---|------------------|-----------------------------------|-----------------|---------------------------------|---------------|-----------|-------------|
| Vessel | | Master or Agents | | Colours | Port of Shipment | Country whence consigned | Importer's Name | | Bahadur & Co. | | |
| Packages | | Quantity | | Description | | Real Value as per Sea Customs Act | | Value on which duty is assessed | | | Duty |
| Number and Description (1) | Marks and Numbers (2) | Unit (3) | Amount (4) | Details to be given separately for each class (5) | Rate (6) | Amount (7) | Tariff rate (8) | Ad Val rate (9) | Amount (10) | Rate (11) | Amount (12) |
| | | | | | | | | | | | |

For Custom House Stamps only.

1. I/We hereby declare the particulars to be true.
2. This bill of entry is presented under and subject to Collector's notice dated.....and for the purpose of Section 37 Sea Customs Act, it is expressly agreed that it shall be deemed to be delivered on the date on which the order for inward entry is passed and this bill of entry in fact be so deemed to be delivered.
3. It is hereby declared that the acceptance of a deposit of duty calculated on the declared value and description of the goods specified in this bill of entry before examination and assessment shall be deemed to imply acceptance by Government of such declared value and description or to affect the rights of Government under sections 31 and 32 of the Sea Customs Act until the Appraising Department shall have finally accepted such declared value and description.

Dated.....
 Calcutta,
 Stamp Vendor
 Custom House
 Signature of Importer
 or his Authorised Agent.

The original bill along with a duplicate is sent to the Import Department for entry in the proper register and an Import Supervisor examines the documents carefully. He passes them to a Pass Examiner who, after due examination, puts in red ink a stamp "Appraise and Pass" on a duplicate. Then a bill and a duplicate are signed by an Assistant Collector. A duplicate bill is called from this stage, a "Customs Pass" or simply a "Pass". It is sent to a Jetty Sircar. Goods are appraised in a jetty by an Appraiser who marks on a duplicate "Appraised in Full", and a Pass is returned to a Jetty Sircar.

Then a Jetty Sircar pays the jetty and other charges to the Port Commissioners with an Import Delivery Challan, or a Jetty Challan duly filled. It is available from a Stamp Vendor at three Naye Paise. A Jetty Challan is filed with a Calculator in a Jetty Office along with a Customs Pass. A cash receipt is obtained from a Cashier on the payment of the landing charges.

A Customs Pass, a Jetty Challan, a bill of lading and an invoice are filled for registration with a foreman of a shed, in which the ship is waiting and the place of a shed is indicated by a sign board showing "Challan Accepted and Registered here". A foreman puts landing dates and the number A, B or C of the delivery section on a Jetty Challan for sending it to a particular section, after its registration in an original Import Manifest. A foreman sends back a Challan and other documents to a Customs Appraiser and an Examining Officer who stamps a Jetty Challan with "Passed out Customs Control in Full" after due examination. Later, a delivery order form obtainable free from a foreman of a shed is filled by a Jetty Sircar. A Customs Pass and a delivery order are sent to an Officer-in-charge of the delivery section. He signs a delivery order and grants a Gate Pass, containing the name of a consignee, stating the description and marks of the goods and the name of the gate through which the goods will pass. If goods lie in a jetty for over three days, demurrages are paid.

Then goods are delivered to an importer or his representative, who is a Jetty Sircar, in exchange for a delivery order. The receipt of the goods is acknowledged on a bill of lading. If the goods are loaded into carts, a Cart Ticket must be filled and submitted to a Delivery Clerk for an examination of the goods. Then a Gate Pass and a Cart Ticket are given to a Gate Officer,

who allows the goods to pass through a gate of a jetty in carts after careful scrutiny.

Ship's Report

If goods arrive at a port from a foreign country, the master of a ship gives a report to the Customs authorities within twenty-four hours of arrival. It is called a Ship's Report. It contains information about the port of registration and nationality of the ship, the last port it touched, the names and description of the master, crew, passengers and cargo, including the dutiable goods belonging to a master. Any wrong statement involves punishment of the master of a vessel. Nothing can be unloaded from a ship before the report is submitted.

The goods may be discharged from the Customs authorities after paying the duties, if there are any, and after fulfilling other procedures.

A report should be submitted in a prescribed form. A master of a vessel is required to submit an exhaustive list of the dutiable goods, including the commodities belonging to the crew. A commodity which is not declared may be detained or seized.

Entrepot Trade

Entrepot trade denotes the import trade in which a country imports goods with a view to re-exporting them to another country. For example, England imports a big quantity of jute goods from India for re-exporting them to the Continent. *Entrepot* trade is found if there is no direct trade between the primary exporting country and the consuming country. It may be due to the absence of banking facilities. *Entrepot trade* helps countries obtain imports indirectly through other countries instead of importing the goods directly from the primary exporting country. It is due to the fact that direct trade relations may not exist among all countries, or the trade between them may not be adequate for setting up direct trade relations. England, Shanghai and Colombo are good *entrepot* trade centres.

Questions

1. Make out in proper form and style a foreign invoice for the following:
Leeds, 15th May, 1924 . . . shipped by N. Sutherland & Co., (H. H. & Co.) to Abdul Hossain & Co., Calcutta, 5 cases numbered 98 to 102,

- each containing 24 pieces 48" coloured Vicunas, each 48 yds., at $7\frac{3}{4}d.$ Deduct $1\frac{1}{2}$ per cent. discount. $4 \times 2/4 \times 2 \times 4$ each case. 4 c.w.t. per case. Packing 12s. 6d. each case m/n 9d. per piece. Fire Insurance, $\frac{1}{2}$ per cent. on £200. Cart to Birkenhead, 15s. per ton weight. Dues at 6d. per case. Ft. 35s. per ton meat, and 10 per cent. primage. Marine insurance on £220 at 6s. 8d. f.p.a. and stamp. (B. Com., Bomb., 1960).
2. Show the price per yd. of the goods forming the invoice (a) c.i.f. Calcutta, and (b) f.o.b. Birkenhead. (B. Com., Agra, 1959).
 3. What is meant by indent business? How is it carried on? What is meant the Documentary Bill and what is its utility in indent business? (B. Com., Cal., 1956).
 4. Explain how 'indent business' is carried on in India. What do you mean by 'firm offer' and 'open prices'? (B. Com., Cal., 1934).
 5. What is meant by Indent Business? Explain its utility to the Indian dealer. (B. Com., Cal., 1939).
 6. What is a Ship's Report? Explain four of the chief points with regard to a Ship's Report. (B. Com., Cal., 1939).
 7. Buyers:—Oriental Motor Car Co., Lucknow.
Sellers:—London Exchange Co., London.
The buyers order a shipment of motor parts to be sent via Calcutta through Grindlay & Co., Agents, Calcutta, and Thomas Cook & Son, Agents, London.
(a) Follow the transactions from buyer to seller and back to buyer, explaining what steps are taken and what documents are issued. The goods are insured and dutiable.
(b) Make out the following documents—Indent, Freight Note, Bill of Lading, Invoice, Bill of Exchange to the order of Allahabad Bank, Lucknow. (B. Com., Lucknow, 1961).
 8. William sends a consignment of cotton-goods to J. Ghosh, Calcutta, marked J. G. and consisting of six styles of cotton cloth. He arranges to ship the goods, and in his invoice charges cost of packing, insurance and freight. You are required to:—
(a) Prepare an invoice with all details.
(b) Estimate the cost of packing in four cases $2' \times 3' \times 4'$ at 4d. per c. ft.
(c) Estimate the freight at 40s. a ton and primage.
(d) Estimate the cost of insurance at Rs. 8/- per cent. (B. Com., Lucknow, 1959).
 9. Explain the following:—Certificate of origin, drawback, debenture, crossed cheque, del credere. (B. Com., Lucknow, 1952).
 10. What is Indent Business? How is it conducted and financed? Why are two sets of middlemen required to be necessary in this kind of work? (B. Com., Bombay, 1950).
 11. Examine the importance of institutions for the furtherance of trade. Do you think that number and category of such institutions, both private and State-sponsored, now in existence are adequate for the maintenance and expansion of inland and international trade? (M. Com., Cal., 1954).

CHAPTER XXII

TERMS AND DOCUMENTS USED IN TRADE

Noting

Noting denotes the recording of goods which are exported, in the Customs Register stating whether the goods are dutiable or not. A Customs Challan is made concerning non-dutiable goods. It is noted at the Customs House and permission for exporting them is given later.

Import Manifest

An import manifest denotes a list or an invoice of commodities on board a vessel. It is a document which contains a list of commodities imported in a vessel, including stores, and it contains other information which is required by the Collector of Customs. It is the practice at the Calcutta Customs that a ship which arrives at the Calcutta Port must submit to the authorised Officer of the Customs an import manifest in duplicate within twentyfour hours of its arrival. It is required for the entry of a vessel. Similarly, an export manifest should be submitted in duplicate by the Master of a vessel or by his agent to the authorised Customs Officer at least twentyfour hours before the departure of a vessel. It contains particulars concerning cargo, crew, vessel, destination of a vessel, etc. It is required for the Port clearance of a vessel.

Documentary Bill

A Documentary bill denotes a bill of exchange accompanied by other documents, such as a bill of lading, a delivery order, an insurance policy, an invoice, shipping documents, etc. A bill of exchange is drawn for realising the payment for commodities which are exported to a foreign country by a drawer (exporter) upon a drawee (importer). Commodities which are imported cannot be taken delivery of by an importer without the production of a bill of lading and other documents. The general practice is that an exporter draws a bill of exchange, attaches to it a bill

of lading, invoice, delivery order, etc. and he sends it to his banker or agent of the importing country. On receipt of the bill, a bank informs an importer and requests him to pay or accept a bill of exchange. Later documents are delivered to an importer for the clearance of the goods. If a drawee refuses to pay or accept a bill of exchange, documents, including a bill of lading, are given to an exporter's agent who disposes of the goods. Goods may be disposed of by the bank of an exporter under a letter of hypothecation which is given to the bank.

Documentary bills are drawn in three sets. They are sent by different mails. If any set is lost or misdelivered, another set arrives in time.

Price Quotations

Delivery Docks is a quotation and denotes prices which include charges of unloading and of delivery at Docks in the case of exports.

F. A. S. or Free Alongside Ship means that commodities are delivered free of charges alongside a ship but extra charges are made for placing them on board a vessel.

F. O. B. or Free On Board includes costs of loading commodities on board a ship.

C. & F. or Cost and Freight denotes that a seller bears freight so the place of import should be stated, e.g., C. & F., Calcutta.

C. I. F. or Cost, Freight and Insurance include both freight as well as insurance because goods are insured against maritime risks. In C. I. F. quotation the Port of import is mentioned.

C. I. F. I. or Cost, Insurance, Freight and Interest include interest on the value of the shipment in addition to cost, insurance and freight. Such a price is not usually quoted. When it is quoted it is done so by an agent who undertakes to export on behalf of an importer. In such cases, the commission of an agent may be included in the price, e.g., "C. I. F. I. C. or Cost, Insurance, Freight, Interest and Commission".

C. I. F. & E. or Cost, Insurance, Freight and Exchange means that the price quotation includes the risks of exchange fluctuations.

Ex Ship price quotation denotes that a seller bears the costs of placing cargo on a ship.

Landed Price denotes that an exporter pays expenses up to the discharge of goods on land at a port.

In Bond means that goods will be delivered by a seller at a Bonded Warehouse of the Customs. In such an instance, a seller prepares the Customs Entry for goods and obtains a Warehouse Warrant.

Franco, Rendu or Free denotes that expenses up to the delivery of the goods in a Warehouse of a buyer are included in the price. If "*Duty Paid*" is mentioned, it includes an import duty.

Terms of Payments

C. W. O. or Cost With Order means that a price is to be paid with an order. *C. O. D. or Cash On Delivery* means that cash is to be paid on delivery of the goods. In foreign trade, an exporter sends the shipping documents for the clearance of the goods to its bank of the importing country. A bank collects the price on the presentation of the documents.

Remittance Terms

Indian importers prefer to pay the British exporters by means of *remittance*. They remit money if exchanges are favourable for them. The advantage of Remittance Terms is allowed to importers, who have credit and reputation.

Draft Terms include all conditions of sale, namely, the drawing of a draft by an exporter upon an importer stating if a draft is a D/A or a D/P bill.

Letters of Credit

An importer may want to import goods but an exporter may not be prepared to send goods to him except for cash payment. An importer may import on the basis of credit through the medium of a letter of credit. The latter creates credit, so it helps expand international trade.

A letter of credit denotes an undertaking by a banker stating that bills drawn upon him by an exporter will be honoured. An importer requests his banker to issue a letter of credit in favour of an exporter, and a bank undertakes to honour bills if they are drawn by an exporter according to the terms of credit. A letter of credit may enable an exporter to draw a bill upon a

bank itself, if the latter agrees to accept and honour such a bill. In that event an exporter may discount the bill as a first class security.

Kinds of Credit

In the case of a *confirmed or irrevocable credit*, an issuing banker gives an undertaking to accept and pay bills drawn upon him, if they are drawn according to the terms of credit. In the case of 'Confirmed Credit' a bank, through which credit is advised to a beneficiary, sends its confirmation to an issuing banker.

In the case of an *unconfirmed credit*, an issuing banker gives no undertaking but it simply agrees to honour drafts drawn under the terms of a credit, if the credit is not meanwhile cancelled. An issuing banker honours drafts which are negotiated by a bank, if the latter negotiates drafts before the receipt of a notice of cancellation.

A *documentary credit* stipulates that bills must be accompanied by shipping documents. A *clean credit* stipulates that drafts may not be accompanied by documents.

An *acceptance credit* includes bills which require acceptances as distinct from sight drafts. In acceptance credit an issuing bank undertakes to accept a bill on behalf of an importer. It is called negotiation credit if an issuing bank undertakes to negotiate drafts. Acceptance credits contain the name of the place, where drafts are accepted, e.g., Calcutta Acceptance Credit.

A *fixed credit* enables a drawer to draw drafts for a fixed amount either in one bill or in many bills.

In the case of an *omnibus credit*, shippers are allowed to draw on a bank in round amounts against the security of the goods.

A *revolving credit* means a credit which is automatically renewed from time to time on the fulfilment of certain conditions. A revolving credit may take four shapes, such as (a) it may be available for a *fixed amount in one draft* at a time with a condition of its being renewed automatically, (b) credit is available for a *fixed amount in one draft* at a time with a condition that credit is available if an intimation is given that a previous draft has been paid, (c) it provides for an unlimited amount of the bills, outstanding at a time and (d) it is available for a limited amount during a certain period.

A negotiation credit or authority to negotiate is found if a bank (in an importer's country) requests its agent or branch (in an exporter's country) to negotiate bills drawn by an exporter upon an importer up to a certain amount during a period. Although there is no guarantee, an issuing bank guarantees to honour drafts on presentation, if they are negotiated prior to the cancellation of the credit.

CREDIT FORM

THE.....BANK LIMITED

L/A 31/40

MESSRS. GHOSH & SONS,

Court Buildings, Grosvenor House, Calcutta.

An Irrevocable Credit.

Dear Sirs,

We beg to inform you that in accordance with advices received by letter from Banque Mellie, through our Bombay Office an Irrevocable Credit has been opened in your favour by them and.....for account of Bose for a sum not exceeding Rs. 15,302/- (Rupees fifteen thousand three hundred and two only).....in all, available by delivery to us on or before the 20th April, 1962.....of the following documents evidencing a shipment of 160 Chests Tea produce of Calcutta, shipped from Calcutta to Bushire C. I. F. Partial shipment not allowed.....

1. Bills of Exchange in duplicate payable at sight.....
Bose.....and marked "drawn under
Banque Mellie, Irrevocable Credit No. 20.....
dated December 16th 1962."
2. Detailed invoices.....in triplicate
signed by you certifying that the same are correct.

3. Clean "on board" Bills of Lading in complete sets of two signed copies at least made out "to order," endorsed in blank..... and marked by the Steamship Company "freight paid.'
4. Policies for 110 per cent. of the invoice value covering marine and war risks taken out with approved Under-writers and endorsed in blank. (Please note that Certificates of Insurance will not be accepted).
5. Certificate of Origin in triplicate.....
6.

We have pleasure in stating that we are prepared in our option as customary to negotiate drafts drawn in terms of the arrangement provided that the documents as above mentioned appear to us to be in order.

When presenting drafts for negotiation under this Credit it is imperative that this letter be produced to enable us to mark off on the back thereof the amounts of drafts drawn thereunder.

Kindly note that this advice is given for guidance and without involving any responsibility on the part of this Bank.

Yours faithfully,
Manager.

Non-Commercial Credits

A *Traveller's Letter of Credit* denotes a request by an issuing bank to a branch or agent abroad to give cash on demand against drafts drawn by a holder upon the issuing bank up to a specified amount during a certain period. A traveller's letter of credit is of three types, such as (a) *circular or world-wide letters of credit* are available from any branch or agent of an issuing bank, (b) *limited letters of credit* entitle holders to get cash at certain agencies or branches, and (c) *traveller's commercial letters of credit* are issued to enable holders to buy goods at certain places, and the letters are accompanied by shipping documents.

A *letter of indication*, containing a specimen signature of a traveller is given to the latter by an issuing bank, and he must

produce it to a bank's agent or branch abroad at the time of encashing a draft for establishing his identity.

Travellers' cheques mean drafts drawn by a holder upon an issuing bank and they are encashable by a bank's agent or correspondent abroad. The cheques are signed by a holder in the presence of an issuing bank and they are endorsed at the time of being cashed for verifying identity.

Circular notes are similar to traveller's cheques, and they contain, on the front, a request to a bank's agent or correspondent abroad to give cash up to a certain amount. On the back is enclosed a cheque, which is drawn by a holder upon an issuing bank.

Circular cheques are issued by a bank to its agent or correspondent abroad, and they are sold by the latter to people who propose to visit the country of an issuing bank. They are in the form of cheques drawn upon an issuing bank by its agent or correspondent, who fills the amount of cheques before handing them to buyers.

Trust Receipts

An importer may take an advance from a bank against shipping documents, giving a title to the consignment of the goods. He may finance the shipment by a credit opened with a bank, against the pledge of shipping documents of title to goods. In either case it is necessary for an importer to obtain documents which are pledged with a bank in order to take delivery of the goods before paying the amount due to a bank but the bank cannot dispense with the documents. So a compromise is reached by means of a Trust Letter or Receipt which is signed by an importer. Later documents are released by a bank. Characteristics of a Trust Letter or Receipt are:—(a) It serves as an acknowledgment of the receipt of the documents, and a customer undertakes to hold the goods in trust for a bank. (b) It is an undertaking by a customer to store the goods in proper order at his own expense and keep them separate from other goods. He agrees to utilise proceeds of the goods in settlement of the indebtedness of a bank. (c) A customer agrees to cover the goods by means of an insurance policy against contingencies, and the policy must be delivered to a bank. (d) A customer agrees, by

means of the document, that a bank shall be entitled to resume the possession of the goods at any time, and it can cancel the receipt any time. (e) It is further agreed that no breach of any provision will constitute a waiver by a bank in respect of its rights under the Trust Letter or Receipt.

Charter Parties

It is possible to hire a ship or a portion of it, for the shipment of cargo. For hiring, an agreement is made by a hirer with a shipowner and the agreement is called a Charter Party. It may be a *Voyage or a Time Charter*. A voyage charter denotes an agreement, hiring a ship or a portion of it, for a specified voyage only. If a ship or a portion of it is hired for a certain period, it is called a time charter.

In a charter party, a shipowner guarantees that a ship is in a seaworthy condition and it is readily available according to the terms of an agreement. A hirer agrees to put cargo, for which freight is settled. It provides for a few days, technically called *Lay Days*, which are allowed to a charter for loading and unloading cargo. *Demurrage* is charged for the days which are in excess of the lay days. If lay days are not utilised a shipowner gives a refund to a charterer for the days which are saved, and the money which is returned is called *the despatch money*.

It is the practice to mention in a charter party the port or the destination of the goods but if cargo is mentioned, no other commodity can be shipped. It is more often than not that a charter party describes the cargo merely as "lawful merchandise."

A charter party should contain the following clauses:—
(a) names of parties, (b) class of the charter party, (c) stating the place where a ship is staying, (d) representation by a shipowner about the fitness of a ship, (e) prosecution of a voyage, (f) master's duty, (g) charterer's party to provide cargo and to arrange the payment of freight, (h) excepted perils, (i) lay days, (j) provision for loading, discharging, demurrage, cancellation and penalty.

The fitness of a ship is implied by a shipowner. Implied warranties include (a) seaworthiness at the time of sailing and (b) fitness at the time of loading. If a voyage is divided into stages, it must be seaworthy at each stage of a voyage.

Form of Charter Party

Although particulars of a charter party differ according to the practices of a port and the character of a voyage, some clauses are obligatory in a charter party.

A common form of such an agreement is given below:
 "Calcutta, the 14th July, 1962. It is this day mutually agreed between Messrs....., owners or agents for owners of goods steamship or vessel called the of cwt. net register, now trading at, and Messrs., merchants, the charterers. That the said ship being tight, staunch and strong and in every way fitted for the voyage shall with all convenient speed proceed to and there load in the usual and customary manner a full and complete cargo of lawful merchandise about cwt. in weight and therewith proceed to as ordered before sailing or so near thereto as she may safely get and there deliver the cargo in the usual manner agreeably to bills of lading or being paid freight at the rate, the steamer paying all port or other customary dues or charges. The cargo shall be put on board and taken from the steamer's tackle at freighter's risk and expense. The steamer is to be loaded at the rate of not less than.....tons per weather working day (Sundays and holidays excepted) and to be discharged at the average rate of not less than.....cwt. per like days (Sundays and holidays excepted) charterers to be at liberty to average days for loading and discharging to avoid demurrage and steamer to load if required on Sundays and holidays but in such case time used to count. The freighters shall have the option of keeping the steamer on demurrage at the rate.....per cwt. per running day on the total quantity of cargo delivered, but in no case less thanper day. Lay days to count from steamer's arrival has been reported and is in every way ready to load and deliver as customary and written notice thereof has been duly delivered to the consignees or freighters if the loading or discharging on the conveyance of the cargo from the mines to the vessel be prevented by bad weather, floods, frosts, rebellion, tumult, riots, war, epidemics, civil commotion, political disturbances, lockout, strikes or stoppage of workmen or any other cause beyond the control of the characters, time shall not count nor demurrage accrue.

Freighters shall not be responsible for any loss of time owing to the inability of the steamer to take on board or discharge within the stipulated time. Masters to sign bills of lading at any rate of freight required by freighters but not less than chartered rate. Charterers have the option of cancelling the charter, if the steamer be not in loading port, ready to load within 21 days from the date of this charter. Charterer's liability shall cease on completion of loading, owner having lien on cargo for freight, dead freight and demurrage. The Act of God, king's enemies, quarantine, fire on board etc., barratry of the master and crew, enemies, pirates, robbers, accident to boilers, machinery, collision, stranding, jettison or from any act, neglect, default or error in judgment of the pilot etc., other dangers and accidents of the seas, rivers and canals of any kind before and during the said voyage always excepted and steamer is not answerable for any loss through explosion of boilers, breakage of shaft or any latent defect in the machinery not resulting from want of due diligence by the owners. Steamer has liberty to call at any port to bunker or receive and deliver part cargo or to deviate for the purpose of saving life or property etc., salvage and towage for owner's sole benefit. In case of average the same to be settled in accordance with York-Antwerp Rules. Any time lost at discharging port owing to scarcity of wagons or labourers is to be computed as lay days."

Salvage

Salvage denotes a reward to persons who have a ship or cargo. A salvor can claim a reward if services are given voluntarily, if skill and enterprise are shown in work and if services are beneficial. A salvor has a maritime lien which extends to a ship, cargo and property. Cargo-owners are liable for salvage in proportion to the value, determined rateably with other property salvaged.

The expenditure which is incurred is not a general average or loss, but it becomes so if both the ship and the cargo are salvaged.

Excepted Perils

The excepted perils clause is found both in a charter party and in a bill of lading. It is meant to exonerate a shipowner from liability for loss, caused by perils beyond human control and not by the negligence of a shipowner.

If the excepted perils happen in a bill of lading, they benefit a shipowner only. If they occur in a charter party they benefit both the shipowner and the charterer.

An excepted perils clause includes the following:—

(i) Act of God:—Accidents caused by forces of nature which no human agency can avoid by reasonable foresight.

(ii) King's enemies, restraints of Princes and rulers:—enemies refer to enemies of a State to which a carrier is subject. Restraint of princes means any restriction imposed by a sovereign authority through whose jurisdiction a ship has to pass. For example, blockades and embargoes may be mentioned.

(iii) Pirates, robbers or thieves.

(iv) Strikes and lockouts denote stoppages of work owing to trade disputes.

(v) Barratry refers to deliberate wrongful acts done by a master or a crew against a ship or cargo, e.g., when a master fraudulently sells cargo, or deviates.

(vi) Jettison:—It does not include a case in which jettison takes place owing to improper stowage, amounting to negligence.

(vii) Collision:—It is included within "perils of the sea," if it is not caused by negligence.

(viii) All perils, dangers and accidents of sea:—They include dangers which are peculiar and incidental to a sea voyage. They "cannot be foreseen and guarded against by a shipowner or his servants as probable incidents of an adventure."

A master, being a servant of a shipowner, must act in the interest of cargo-owners, specially, in emergencies. He must obtain a clearance certificate before the commencement of a voyage, after loading cargo. He is authorised to sign bills of lading.

A shipowner has a lien on cargoes carried by a ship until he receives freight. It is removed after the delivery of the goods. There is no lien for dead freight in the absence of an agreement or usage.

Causa Proxima

In the case of a damage or loss, arising from several causes, the exemption clause operates as far as the proximate cause is concerned. If an excepted peril becomes a remote cause, a shipowner is not excused for such an event.

Bottomry and Respondentia Bonds

If a ship begins a voyage, it may face accidents, causing damage to a ship and requiring repairs before it can sail again. To enable a captain to obtain money on a voyage for carrying out repairs, many ways are available. A captain can draw a draft on the owner of a vessel. He can raise money on the security of vessel, freight and cargo. As costs of repairs are to be met by the owner of a vessel securities which a captain can pledge are given in order of priority of proprietary rights of the owner of a vessel. A captain of a vessel will raise money first by mortgaging a vessel and the deed executing such a mortgage is called a Bottomry Bond. If adequate money is not available, a captain will raise further money by mortgaging freight and cargo. If the mortgage bond includes freight and cargo in addition to a vessel, it is called a Respondentia Bond. A bottomry bond includes the mortgage of a ship, freight and cargo. If freight is mortgaged, it denotes freight which is unpaid and to be paid at the destination.

In both bonds, money is repaid at the destination, and no money is repaid, if a vessel does not reach the destination, or if it is lost.

The rule of the bond is that if more bonds are required to raise further funds before completing a voyage, the later bonds get priority in respect of repayment.

Consular Invoice

A country may require a consular invoice against imports. The importing country may not release the imported goods unless the consular invoice is produced. A consular invoice is certified by a consul of an importing country, who is stationed in an exporting country. Before a commodity is shipped, an exporter prepares an invoice, containing its F. O. B. price, including shipping charges and submits it to a consul of an importing country, who is stationed in the exporting country. He certifies the invoice. The certified invoice which is called a *Consular Invoice*, is sent to an importer who produces it before the Customs. It helps the latter levy a duty if there is any, as information given in a consular invoice is accepted as a guide.

INSTRUCTIONS ISSUED BY THE SECRETARY OF THE TREASURY RELATIVE TO THE REQUIRED CONTENTS OF INVOICES

When special form of invoice is required by the.....Customs authorities, and when the required information cannot be given on the face of this invoice form, it should be attached to and be in lieu of the printed invoice form.

Form 138

(Corrected May 1924)

PURCHASED MERCHANDISE

DECLARATION OF SELLER OR SHIPPER, OR THE AGENT OF EITHER, WHEN MERCHANDISE IS SHIPPED IN PURSUANCE OF A PURCHASE OR AN AGREEMENT TO PURCHASE.

Invoice No.
Issued in { TRIPLICATE
QUADRUPLICATE
Certified.

(Date)

CONSULAR SERVICE

AT

Date.
Seller.
Purchaser.
Carrier.
(Vessel or railroad)
Port of shipment.
Destination of goods.
Port of arrival.
Port of entry.
Amount of invoice.
Kind of goods.

CONSULAR CERTIFICATE

Form 140

(Amended June 1934)

I do hereby certify that this invoice was this day produced to me by the
signer of the above declaration. (Date)
I do further certify that I am satisfied that the person making the declaration
above is the person he represents himself to be, and that a fee of \$2.50 United
States currency equal to has been paid by affixing stamps
to the original copy of this document.
Witness my hand and seal of office the day and year aforesaid.

INVOICE OF PURCHASED MERCHANDISE

.....
 (Place and date)
 Invoice of purchased or agreed to be purchased
 by of
 from of
 as per order accepted
 (Date)
 to be shipped per

STATE WHETHER PRICES IN THIS INVOICE ARE IN GOLD, SILVER, OR
PAPER CURRENCY

| Marks, Numbers, and Quantities | Manufac- turer's Nos. (See Note 1 below) | Full Description of Goods. N.B.—Always state the cost of packing, and all other costs, charges, and expenses. | Purchase Price Per Unit | Total Invoice Price | Consular Correc- tions or Remarks |
|---|--|--|-------------------------------|---------------------------|--|
| | | | | | |

NOTE 1.—“Manufacturer’s Numbers”. This column must include manufacturer’s grade, quality, marks, numbers, or symbols.

NOTE 2.—If any taxes to which the merchandise is subject are not included in the unit prices given in the column headed “Purchase Price Per Unit”, such taxes must be set forth separately and clearly at the foot of the invoice.

NOTE 3.—Items of commissions in the invoice must specify nature of commission, as, “buying”, “selling” commission, etc.

(Signature of seller or
 shipper or agent of either
 signing in the name of
 his principal)

Signature of Seller or Shipper.....
 By (authorised agent).....

Consul

A consul is appointed by a Government to stay in a foreign country where he protects the commercial and trade interests of his country. He has no diplomatic status. Unlike an ambassador, he enjoys no diplomatic privileges and immunities. He gives advice and assistance. He makes representations if they are required. Trade Commissioners who are appointed by the Government of India, act as consuls.

Certificate of Origin

A Certificate of Origin denotes a declaration which is made by an exporter, testifying to the origin of exports. It is certified by an authority who is deputed for the purpose by an importing country.

CERTIFICATE OF ORIGIN (Specimen)

| Marks | No. | Packages | Quantity | Description |
|---------|-----|-----------|------------|-------------|
| MONTKB | | | or weight | of goods |
| Bushire | 101 | 222 Cases | 22024 lbs. | Tea |

We hereby declare that the above goods were produced in India in the province of north India and are shipped to Bushire (Iran) from the port of Calcutta per steamer S/S "Garmula" sailed on the 7th August, 1962.

Per Pro SEN & Co.,

Shippers.

I, the undersigned Secretary of the Bengal Chamber of Commerce, hereby certify that the above declaration was made before me.

*Secretary,
Bengal Chamber of Commerce.*

Calcutta,
Dated, 9th August, 1962.

Clean Bills of Exchange

A clean bill bears no reference to any other document.

Collateral Security

Collateral security denotes an additional security which is given by a borrower to a creditor.

Bill of Sight

If an importer cannot describe the goods fully in a Bill of Entry from the information supplied by an exporter, he is required to file a declaration to that effect. The Customs will then permit him or his accredited representative to open the commodities in the presence of Customs Officials for making a *Bill of Sight* in which an importer gives all information, and he expresses his inability to furnish further information without sighting or inspecting the goods. A bill is then passed to an Officer-in-Charge of the Dock or Wharf where the goods are kept. An importer is later allowed to complete a Bill of Entry from an examination of the goods.

Questions

1. What is a Charter Party? Discuss the clauses dealing with excepted perils in a Charter Party. (B. Com., All., 1961).
2. Distinguish between Bottomry and Respondentia Bonds. Very fully discuss the peculiar features of those two kinds of bonds. (B. Com., Cal., 1935).
3. What is an Import Manifest and a Documentary Bill?
4. Discuss the importance of Letters of Credit in Foreign Trade. What are the different types of such Letters of Credit? (B. Com., Madras, 1960).
5. Define and describe Trust Letters of Credit.
6. What the Consular Invoices and Certificates of Origin?
7. What is a Charter Party? In case of a Charter Party does the ship come, for the time being, into the entire possession and control of the charterer, and do the master and crew become his servants? Explain fully the different aspects of the question. (B. Com., Cal., 1940).
8. What is (i) a Charter Party? Carefully distinguish between Voyage Charter and Time Charter. (ii) What is meant by "Lay Days"? (iii) What are the usual exceptions in a Charter Party? (B. Com., Cal., 1958).

9. Write notes on: (a) Bottomry Bond, (b) Arbitrage, (c) Bonded warehouse and (d) Circular notes. (Gauhati University, 1954).
 10. What is a Bill of Lading? Explain and illustrate its principal features. (B. Com., Madras, 1961).
 11. Write short notes on any four of the following:—(a) Bill of Lading, (b) Deferred Rebate, (c) Letter of Hypothecation, (d) Futures Market, (e) Excise Duty, and (f) Strikes. (B. Com., Cal., 1950).
 12. What is a Bill of Lading? Explain and illustrate its principal features. (B. Com., Cal., 1954).
 13. Write short notes on any five of the following:—(a) Bonded warehouse, (b) Arbitrage, (c) Backwardation, (d) Bottomry Bond, (e) Circular Notes, (f) Countervailing Excise Duty, (g) Moratorium, (h) Window-Dressing, (i) Deferred shares, (j) Voidable Contract. (B. Com., Cal., 1954).
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CHAPTER XXIII

CUSTOMS AND EXCISE

General

A Government obtains revenue by levying taxes on goods. The taxes take the form of customs duties or excise duties. Customs duties are levied upon goods which pass out of or enter into a country. They are duties which are levied upon imports or exports. So they are called import or export duties.

Excise duties denote taxes which are levied upon commodities, produced and consumed within a country. Excise duties may be levied upon other than goods, *e.g.*, entertainment taxes, duties on patents, etc. Excise duties are classified under the following heads:—(a) They include duties which are levied upon commodities, *e.g.*, excise duties upon salt, sugar, cotton, etc. (b) Licence duties are paid, if an individual is licensed to sell some specified commodities. Such a licence in India takes the shape of two payments, such as (i) a liquor licence which authorises an individual to sell beer, spirit, wine, etc. and (ii) a licence (other than a liquor licence) which authorises an individual to sell motor oil, petrol, tobacco, etc.

A duty may be levied on the value of a commodity or on the quantity of the goods. In the former case, it is called an *ad valorem* duty, and in the latter case, it is called a specific duty.

Economic Significance

The principal aim of a customs or an excise duty is revenue. If a duty is imposed and commodities pay it, it gives revenue to the Government.

Customs and excise duties may have protective effects. If an import duty is levied without a corresponding excise duty on the domestic product, the former gives protection to the home industry. To make an import duty fully protective, it should be adequate for prohibiting imports. A fully protective import duty should yield no revenue. For example, an import duty on foreign matches in India is fully protective, as no foreign matches enter into this country because of a high import duty.

An export duty may be revenue-yielding, protective or both.

In that event protection means the protection of a foreign industry. So export duties are not levied except for revenue. They are therefore usually levied on a commodity which is in the nature of a monopoly. Export duties may be levied for restricting or prohibiting exports for strategic or other considerations.

Excise

An excise duty may be either revenue-yielding, protective or both. In that event protection is given to a foreign industry. So an excise duty is levied for revenue only. If excise duties are levied upon a commodity which competes with an imported article, the protective effect of an excise duty is removed by levying an equivalent import duty on the competitive foreign commodity. As revenue is the aim of an excise duty, it is imposed upon a commodity of general consumption. In the case of a commodity with an inelastic demand a small excise duty can yield a large revenue, *e.g.*, match and sugar excise duties in India.

If an import or an excise duty is levied for revenue the protective effect of the duty is removed by levying a countervailing duty. For example, if an excise duty is levied, its protective effect may be removed by levying an equivalent import duty on the foreign competitive article, and such an import duty is called a countervailing duty. If an import duty is levied for revenue, a countervailing duty will take the form of an equivalent excise duty on the competitive domestic product.

Subsidy denotes a single lump sum which is given by a Government to an industry. It is granted to an industry which is considered essential in the national interest. Bounty confers benefits on a particular industry, while a subsidy is given in the general interest of a nation. The Cunard Line was given a subsidy for maintaining the Royal Mail services. The Japanese shipping industry is protected by subsidy.

Key Industry

Key industries serve as basic industries on which are built other important industries. Their importance is evident in the event of a war. They are required for war purposes. A country protects key industries by tariffs, bounties, subsidies, etc., and also by means of safeguarding of Industries Acts.

Dumping

Dumping takes place if an industry sells goods to a foreign country at prices which are lower than the costs of production, or at prices which are lower than the domestic ones. Dumping may be directed towards curbing foreign competition by price-cutting or it may be made to sell excessive supplies abroad for avoiding depression in the domestic market.

Questions

1. What is the difference between Customs Duties and Excise Duties? Give a broad classification of Excise Duties. Explain the meaning of the terms:—Drawback, Bounties, and Subsidies.
(B. Com., Andhra, 1960).
2. What do you mean by duty on goods, and why is it levied? Distinguish clearly between Customs Duty and Excise Duty. (B. Com., Cal., 1959).
3. Define Key Industries and Dumping.
4. Distinguish carefully and define "Excise duty" and "Customs duty".
(B. Com., Cal., 1943).
5. Distinguish clearly between Customs Duty and Excise Duty. What are the principal factors to be taken into account in fixing these duties?
(B. Com., Cal., 1944).
6. Write short notes on any four of the following:—(a) Customs Duty, (b) Deferred Rebate, (c) Sales Tax, (d) Hundi, (e) Particular average loss.
(B. Com., Madras, 1959).
7. What do you understand by "revenue" and "protective" customs duties? State their respective advantages.
(B. Com., Cal., 1960).

CHAPTER XXIV

MARKETS AND COMMODITY EXCHANGES

Market

In popular usage a market denotes a place in which commodities are bought and sold but in Economics, a market has a wider significance. It does not mean a place or a locality. A market denotes a group of buyers and sellers, competing freely with one another for the purpose of exchange. The area of a market can be as big as buyers and sellers want to make it. If it is confined to a particular area, it is called a local market. It is called a national or an international market as buyers and sellers spread over a nation, or over many countries.

Conditions of a perfect market are:—(a) open and free competition among buyers and sellers, and (b) easy transport and quick means of transmission of news. If such conditions prevail the price of a commodity in a market is determined by conditions of demand and supply. A price which is determined at the equilibrium point of demand and supply is called a normal price. A price which is determined in a market on a day is called the market price, which is equal to a normal price. Conditions of demand and supply are governed by marginal utility and marginal cost of production. If perfect competition prevails there can be one uniform price at a particular time, as competition among buyers and sellers cannot bring about a difference in prices of a commodity at one time.

Markets are classified under many heads. It is called a *wholesale market*, if commodities are sold wholesale to dealers. In a *retail market* things are sold to consumers directly. There are *commodity markets* in which raw materials are transacted, e.g., cotton, wool, tea markets, etc. A *capital market* denotes an institution in which savings are lent to traders and business men. A *stock exchange* is an important capital market. A *money market* is a portion of a capital market, as it is concerned with those who lend or borrow money. Banks play an important role in such a market. In a foreign exchange market, the buying and

selling of foreign currencies takes place. In international trade indebtedness between countries flowing from the exchange of commodities is settled by means of foreign exchange.

If a commodity is traded internationally, it should be *sampled and graded*. If goods are sold by sample and grade, they can be bought and sold from long distances by mere description. If goods are uniform, a sample is adequate for guiding a buyer.

The advantages of grading are many. A commodity which can be graded commands a wide market, as people from distant areas can buy a commodity by the mere inspection of a sample. In the case of a graded commodity, its quality, size and quantity are known factors. Dealings in futures are easier in the case of a graded commodity. The financing of the marketing of graded commodities is made without difficulty as a financier knows exactly the kind of security against which he advances money.

Grading is important in the case of agricultural commodities. For example, it is possible to have an international market in cotton, wheat, tea, etc., as they are graded. The marketing of Indian agricultural commodities is handicapped by the absence of proper grading. The Government of India and other State governments have taken up this question and they are trying to introduce scientific grading of commodities. The grading of wheat, linseed and cotton has been introduced by the Government of India.

In this country a separate department has been created by the Central Government with a Marketing Adviser. He has assistants and officers in different States. They are carrying out marketing surveys of agricultural commodities. The Indian Central Cotton Committee and the Indian Central Jute Committee investigate the problems of marketing of cotton and jute, respectively.

Forwarding Agent

A forwarding agent denotes a person who is employed when goods are to be exported. His duties include receiving goods at the docks, arranging freight, attending to customs formalities, procuring necessary bills of lading and effecting marine insurance. If goods are imported, the services of a *clearing agent* are utilised. He attends to Customs formalities, takes delivery of the goods from a steamship company and forwards them to his principal according

to instructions. The same person or firm may act both as a forwarding and a clearing agent.

Produce Exchange or Commodity Market

A Produce Exchange denotes a market in which commodities are bought and sold. The produce exchanges, especially in cotton, wool, tea, etc., are so organised that dealings are regulated and governed by rules and regulations. In produce exchanges, graded commodities are bought and sold, so commodities are transacted by grade and sample. It is not necessary that commodities should be exhibited physically.

The commodity markets or exchanges may be general, or special. A general commodity market exists when more than one commodity is dealt with, but a special commodity exchange deals with one commodity only, such as jute and cotton.

Spot or Future Dealings

In a market, commodities may be transacted on the basis of "Spot" or "Futures". The former includes transactions which are closed by the delivery of goods for cash. Dealings in futures mean that a contract of sale is made, but a seller contracts to deliver the goods at a future date as fixed in a contract, and a buyer agrees to take delivery by the payment of cash in future.

In an organised produce exchange, contracts are regulated by rules. A future contract may be either (a) a basic contract which means that in a contract for futures a seller has an option of delivering the goods of many grades which vary within prescribed limits, or (b) a specific contract, when a seller undertakes to deliver commodities of a certain specified grade.

Goods for future delivery in a "Future Contract" refer to commodities which are either ready or which may have to be manufactured. A contract for deferred delivery refers to goods which are ready, but delivery is delayed because of time involved in transit.

Forward Trading

The working of forward markets is looked upon with considerable suspicion by the general public, who are appalled by

the large profits and losses which can be made overnight through transactions relating to goods which are not required to change hands and which have often yet to be produced. In actual fact, however, if the forward markets are organised on proper lines, and are open only to persons with knowledge and experience of the trade, they are able to render important economic services to the community.

The principal benefits of a forward market may be summed up briefly. First, it enables large purchases and sales of goods to be made at short notice in advance of delivery, and even in advance of production. It thereby facilitates the undertaking of lengthy and complex processes of production and manufacture. Secondly, it facilitates the smooth flow of goods from the producer to the consumer without causing the goods to become abnormally cheap during times of harvest or abnormally dear towards the end of the season. It thereby eliminates rapid and violent fluctuations in prices and provides a certain measure of stability. Thirdly, it enables operators to adjust their stock position continuously to changing prospects of supply and demand, and brings about an integrated price structure in different parts of the country and at different moments of time. Finally, it enables buyers and sellers of goods to insure themselves against the uncertainties arising from changes in prices in response to changes in market conditions.

While forward markets thus render a distinct service to the community they are also capable of abuse; constant vigilance is, therefore, necessary. A forward market tempts persons with insufficient funds and little experience to indulge in large operations through brokers at nominal brokerage charges. When these persons default on their obligations they not only ruin themselves and their creditors, but also upset the entire market. The professional speculators are, on the other hand, tempted to use their expert knowledge and financial resources to manipulate the market to serve their own interests. The activities of unscrupulous operators lead to frequent crises ending in widespread failures to meet obligations and untold suffering to genuine operators. It is because of such abuses of the freedom of trade that forward markets have got a bad name. It is important therefore that forward markets should be permitted only under regulation in the public interest.

Regulated Forward Trading

The Forward Contracts (Regulation) Act, 1952 has been enacted for regulating futures trading. The Act is an enabling measure and its regulatory provisions are applied by notification to particular commodities and areas. It prohibits options and covers mainly what are known as "transferable specific delivery contracts" and "hedge" or "futures contracts". It provides, however, for the inclusion of "non-transferable specific delivery contracts" also in its ambit, if the circumstances so warrant.

In non-transferable specific delivery contracts, the delivery of goods is a common feature. The goods have to be of a specified quality and to be delivered in a specified quantity at a destination for a fixed price. This type of contract resembles the ready contract except that the delivery of goods takes place after a longer period. Under a transferable specific delivery contract, delivery takes place between the first seller and the last buyer since the contract is transferable from hand to hand, but it has to conform to the same detailed specifications as in a non-transferable contract. A hedge or a futures contract, however, does not visualise actual delivery at all, except in a residual sense.

The settlement in a non-transferable specific delivery contract takes place through the payment of the full value of the goods by the buyer to the seller. The hedge or futures contracts and transferable specific delivery contracts in so far as the intermediate buyers and sellers are concerned, are however, settled by the payment of differences between the prices at which the contracts are bought and the prices at which they are sold.

The transferable specific delivery contract thus occupies a position intermediate between the non-transferable specific delivery contract on the one hand and the futures or hedge contract on the other. It has points of resemblance to both but is treated on par with the futures or hedge contract under the Act as it is not easy, in practice, to distinguish between the two.

Forward Markets Commission

The Government of India has established the Forward Markets Commission for the purpose of enforcing the Forward Contracts (Regulation) Act, 1952.

The Commission has investigated the possibility of establishing regulated forward markets in cotton, jute, oilseeds and oils, spices, foodgrains, shellac, metals, bullion etc. The recommendations of the Commission have been accepted by the Government in most cases. The forward markets function in cotton, jute, oilseeds and oils under the supervision of the Forward Markets Commission.

In cotton the East India Cotton Association (Bombay) has been recognised as a forward market for the commodity. Forward markets in cotton are also functioning in Akola and Indore. In jute and jute goods the East India Jute and Hessian Exchange Ltd. has been recognised as the forward market.

The Commission carries out exploratory studies for advising the Government whether it is desirable to apply the Act by notification to any particular commodity market.

It receives and makes recommendations to the Government on the applications made by different associations which ask for 'recognition' in respect of forward trading in different commodities.

It keeps the many forward markets under constant observation, collects economic and statistical data relating to them and inspects the accounts of the recognised associations.

It regulates the recognised associations by giving them directions, approving or amending their articles of agreement and by-laws. In abnormal situations it supersedes their governing bodies and requires them to suspend their business.

The Commission has quasi-judicial as well as executive functions.

Corn Exchanges

Among important markets in corn are the Baltic Exchange and the Corn Exchange in Mark Lane in London. The former deals with contracts of goods "to arrive", while the latter is concerned with spot transactions. The members of the two exchanges are common. They generally contract for goods "to arrive" in the Baltic Exchange, and sell it spot on the Corn Exchange.

The form of a contract in the Baltic Exchange is regulated by the London Corn Trade Association which stipulates that the grain shall be of a fairly average quality. If it falls below this

standard, buyers are entitled to an allowance but no allowance is given if the quality is above the average.

Any dispute is referred to arbitration which consists of two members who are members of the Exchange. A buyer nominates one, and a seller another, and a third one may be appointed by the two arbitrators. If the arbitral award is not acceptable, there may be an appeal to the Appeal Committee of the Association.

Wheat is graded according to quality by the Association except for wheat coming from Canada or the United States of America, because their Governments guarantee the transactions.

Spot goods may be rejected before 11 a.m. next day after sale with reason stated but forward goods (goods "to arrive") cannot be rejected. Any difference in quality must be adjusted by means of allowances.

Cotton Exchange

The Liverpool Cotton Exchange is the distributing centre of cotton, supplied to the Manchester mills, and it is an important market. Dealings are in "futures", and marketing is done by sample and grade. There is no auction as in other commodity markets. Grading is regulated by the Liverpool Cotton Association. In the case of taking delivery of "futures", a commodity near a specified quality is usually accepted by a buyer after giving allowances. A dispute is referred to arbitration for settlement. The Cotton Exchange publishes bulletins, giving information about production and stocks of cotton. Dealings in "futures" must be made carefully as prices of cotton fluctuate.

Tea Market

The Tea Market in Mincing Lane (London) is a big market. Tea is sold by auctions in the commercial sale rooms of the exchange. Tea is imported and warehoused, pending sale.

Auction sales are public and people may buy directly, but the bulk of buying and selling are made by brokers.

A selling broker acts on behalf of an importer, while a buying broker represents a buyer.

When an importer obtains a consignment of tea, he informs his selling broker to arrange the sale. A broker immediately

proceeds to make a list, giving description, weight and quality of each lot of tea. He prepares samples. Sampling and grading are done by the selling brokers. He sends a list to prospective buyers, giving the date of auction, and the name of the warehouse where a sample can be inspected. There are regular days for auctions, e.g., Java and other teas on Thursday, Indian teas on Mondays and Wednesdays, Ceylon teas on Tuesdays and sometimes on Thursdays. In the auction sale, buyers bid in competition as each lot is put up for auction. After auctions, a selling broker sends to his principal a contract note, stating details about the sale of each lot. He also sends to a buyer a weight note, stating the buying price, quality, quantity, etc., and the balance of the price after deducting the deposit which must be made at the time of the purchase. The balance must be paid on or before the "Prompt Day" after three months. When a buyer pays the balance, he is given a warehouse warrant, entitling him to take the delivery of tea. In the Central Tea Clearing House in Philpot Lane documents are safely deposited, and accounts are made. A dispute is settled by means of arbitration.

Wool Exchange

The Wool Exchange in Colman Street (London) is important. Wool is sold by auction. There are six series of Colonial Wool Auctions held in the Exchange, each series lasting from two to four weeks. Colonial wool arriving at least eight days prior to the sale of a series is included in the series. Wool, after importation, is stored carefully in warehouses, maintained by the Port of London Authority and private firms. Immediately after importation, wool is entrusted to the care of a firm of the Associated London Selling Wool Brokers. Importers send to selling brokers "Sampling Orders" which entitle the latter to have access to warehouses for purposes of sampling and grading. The selling brokers prepare catalogues after making proper samples and grades. On the morning of each sale, wool is on view for inspection. At 3 p.m. each day buyers meet in the sale room in Colman Street, and auction begins, and buyers bid in competition. "Prompt Day", that is the day of the final payment, arrives after seven days of auction, although a deposit is taken before the final payment. Later goods are delivered to a buyer.

Metal Exchange

The Metal Exchange in Whittington Avenue (London) deals in tin, copper, lead and spelter. Members of the Exchange are limited. They meet and sit in a circle, and bargain with one another for the sale and purchase of the commodities. Usually ten minutes are given to one metal, and they will not keep the market open for more than eighty minutes. They deal in other metals outside the Exchange.

Bombay Cotton Market

The marketing of cotton starts as soon as it is ready in the hands of cultivators. It may begin even if a standing crop is hedged or sold against future delivery. In the case of forward sales, the price is either fixed at the time of a contract, or it is left to be fixed on delivery, according to the quality of production. In Central Gujerat, gin-owners enter into forward agreements with cultivators, at the beginning of the harvesting season, for buying at prices according to samples. Sometimes farmers take advances from money-lenders and hypothecate kapas (unginned cotton). In that event prices are lower than the market quotations during a season time. During a season cultivators sell in the village to sowkers, village dealers, itinerant beoparis, agents of a mill or exporting firms. If they take cotton to the market they sell it through an arhatiya who charges commission.

Carts and pack animals are taken to ginneries, or compounds of arhatiyas, and loads are opened and inspected by an agent of ginneries or other purchasers. A price is fixed under cover or openly, according to the custom of a market. A kachcha arhatiya acts as a middleman between a seller (who may be a farmer or beopari) and a purchaser. Allowances are frequently claimed by a purchaser on the ground that cotton is adulterated or damp or inferior than the sample shown from the top. In the absence of facilities for storage and financing, a farmer is obliged to agree to the unreasonable claim of a buyer. An arhatiya is responsible for payment to a cultivator after cotton is weighed and delivered to a buyer. In regulated markets of the Madhya Pradesh, there are executive committees, representing various interests. Weights and scales are occasionally inspected and tested, and every effort is made to ensure a square deal to a seller.

The next process after a sale is ginning and pressing. A farmer cannot afford to have his own ginning and pressing machine because of poverty. He sells unginned cotton to merchants, ginneries or agents of big firms, who arrange ginning and pressing. Gin-owners in India and Pakistan are different. In places, such as Khandesh, Bombay and Madhya Pradesh, they do not gin their cotton, but they undertake to gin and press their customers' cotton at fixed rates. In Gujerat and northern India there are cotton merchants who buy and stock cotton on their own account. They buy kapas and sell bales of 400 lbs. each to agents of the Indian mills or exporting firms. Some Bombay mills and foreign firms have their own factories in cotton areas. Co-operative societies have started their own ginning factories in cotton growing areas near Surat in Bombay, in which cotton brought by members is sealed, graded and pooled before it is sold to buyers in big lots.

Spot contracts are made on the basis of samples, or by the inspection of goods in godowns. Delivery may be postponed in the case of spot business, but a contract in 'futures' is a basic contract. The price is fixed on the basis of recognised grades.

Tea Market In Calcutta

In Calcutta tea is sold by auction. The auction takes place on Monday and Tuesday at the sale room provided by the Tea Brokers' Association at Mission Row, Calcutta. On Monday export auction is held and "internal sales take place" on Tuesday. Contracts are made between brokers. Tea is sold through a broker. It is brought down to Calcutta and warehoused in Kidderpore. The selling brokers get into touch with owners, and obtain proper samples. They prepare catalogues, dealing with quality, quantity and price. Samples are available and may be inspected by the buying brokers or buyers. At the Auction the highest bidder obtains the commodity. Auction is restricted to each lot of chests. Complaints about quality must be lodged within six days of the sale. The "Prompt Day" (the day of final payment of the price) is usually the tenth day after a sale is made. If a buyer does not take delivery on the "Prompt Day", damages or losses, arising from a re-sale are borne by the buyer. The risks of storing tea remains with a seller up to the "Prompt Day". After

receiving payment, a selling broker remits the sale proceeds to his principal after deducting his commission. Auctions in Cochin are organised nearly in the same line as in Calcutta.

Efforts are being made to make Calcutta a chief marketing centre. The Government of India appointed the Tea Auctions Enquiry Committee to examine the question. It has recommended for increasing the quantity sold in Calcutta, and for providing warehouses, and it has advocated a scheme to train Indian personnel in grading, testing, sampling, etc.

Eastern Pakistan has opened a market in Chittagong. The Pakistan Brokers Ltd., a private broking firm, organises the auction which is held once a week.

Raw Jute Market

Raw jute cultivation in India is carried out by peasant proprietors of small means in widely scattered tiny plots of land. The average size of a jute farm is an acre or less.

Jute is grown in villages far in the interior, which is poorly served by communications. It has not been physically possible for mill consumers to collect all their fibre supplies from door to door. In the marketing of raw jute, therefore, there has sprung up a long chain of intermediaries who between them handle a season's crop from fields to factories. They keep the "pipelines" to the jute mills flowing. Apart from marketing proper, they fulfil certain very important subsidiary functions, such as assembling, financing, cleaning, sorting, grading, storing and the subsequent transportation of jute. The risks assumed by these functionaries are quite considerable.

The movement of jute takes place in three distinct stages. The initial stage is from the grower's hut to primary assembling markets, thence to secondary markets formed by upcountry *kutch*a baling centres, from where the entire marketable surplus of a season's jute crop moves to the terminal loose jute markets in Calcutta, press houses of *pucca* balers and jute mills.

For reasons of pressing demand from creditors, difficulties of rural transport and the smallness of individual offerings, growers sell about 61% of their jute at their doors. This fact is primarily responsible for the establishment of the first chain of intermediaries in the loose jute trade. With more or less identical func-

tions, they are known as *farias*, *paikars* or *beparis* in different jute trading centres. They generally belong to the cultivating class and take up trading in jute as a seasonal part-time job. They operate in their own and on a very small scale. They go about buying jute from the grower's hut as well as from the primary assembling markets and *hats* in villages and carry it to baling stations upcountry. They handle between 50% and 100% of the jute traded in different primary markets.

Apart from these free-lance intermediaries, there are other *beparis* who operate either with money advanced to them by large traders from upcountry baling centres or on a commission basis. They buy the balance of the crop from villages and country markets.

The functionaries in the secondary markets are *aratdars* (commission agents and merchants), *kutchas* balers and *pucca* balers. The *aratdar* is a middleman operating between sellers—growers or peripatetic dealers—on the one hand and buyers—balers and mills—on the other. Besides performing transportation and assembling functions like other dealers engaged in the jute trade, the *aratdar* plays a singularly important role in financing the *beparis* and in undertaking the storage of fibre.

There are four different kinds of *aratdars* in baling centres, namely, merchant *aratdars*, agents of outside buyers, agents of local buyers, and agents of sellers. The merchant *aratdar* is a speculative dealer, buying and selling jute on his own account. He must have a fair amount of capital and a godown.

The *aratdars* belonging to other categories are only functional middlemen with no risk attached to their operations. They work as commission agents of buyers or sellers. They arrange purchases and the handling and storage of jute on behalf of smaller Calcutta buyers and outside *kutchas* balers. When working for local buyers, they may or may not provide storage, but actually perform the functions of brokers with powers to complete deals on behalf of their principals. Since big *kutchas* balers do not find it convenient to deal individually with local sellers or growers who carry small lots of jute to secondary markets, *aratdars* are of immense service to them because they are in constant touch with sellers, *farias* and *beparis*, who purchase jute in villages with money advanced by these *aratdars* and are, therefore, bound to take their supplies to them rather than to buyers

directly. As the agent of sellers, the *aratdar* has under him a group of reliable intermediaries operating in the countryside. They take their fibre to him for storage and sale. Sellers pay him a consolidated fee covering both selling commission and storage charge.

By far the most important functionary in the secondary market, having considerable influence on the marketing of jute, is the *kutch*a baling fraternity. Practically all the jute grown in West Bengal, Tripura, Bihar, Assam, Orissa and U.P. passes through the hands of *kutch*a balers, who undertake its preparation for sale at terminal markets or to jute mills, and *pucca* balers.

Sellers below the level of *kutch*a balers bring their jute to secondary markets in loose form made up into bundles of varying sizes and weights. It is the job of *kutch*a baling establishments to sort this jute into the recognized commercial grades and pack it into *kutch*a bales, using hand or power screw presses. Most of the firms run on small capital and as a rule transport their baled jute to the Calcutta spot market or to mill stations. But there are also large baling firms with head offices in Calcutta which maintain a few central baling establishments at important secondary markets as the apex of a number of outstation buying agencies located at primary and smaller secondary markets.

Small business men ply their trade also in the big terminal markets at Cossipore, Hatkhola and Shyambazar in north Calcutta. They are the *aratdars*, counterparts of the ones operating upcountry. But they do not normally buy or store jute on their own account. They merely act as agents of *kutch*a balers. They are assisted in negotiating sales of loose jute to mill buyers and *pucca* balers by brokers known locally as *dalals*.

This marketing structure with a pronounced intermediary bias, does not work to the best advantage of the grower. His weak bargaining power is sought to be exploited at every stage.

It is intended to give producing units a minimum economic size by the redistribution and consolidation of holdings. To achieve other economies, it is the aim of official policy to integrate agricultural and marketing operations through the formation of multipurpose co-operatives. These will embrace the assembling, warehousing, sorting, grading and baling of jute. In other words, most of the functions at present performed by *farias*, *beparis*, *aratdars* and *kutch*a balers will be done by the co-operatives.

The middleman faces a serious threat to his trade from quite another direction. The almost general practice of the mills employing their own agencies to buy jute from growers directly is cutting into the business transacted individually by various functionaries. At some important secondary markets also the mills' salaried men are offering tough competition.

Baled Jute Markets in Calcutta

In Calcutta, jute is marketed through brokers. Pucca bales are brought to and sold in Calcutta either by local jute mills or exporters. The Calcutta baled jute market may be said to consist of two distinct sections, namely, the "spot" market and the "futures" market.

The Spot Market

Baled jute in Calcutta is bought and sold in two distinct markets, namely, the Royal Exchange in Clive Street and the Jute Balers' Association on the opposite side of the road facing the Royal Exchange.

The Royal Exchange was formerly a monopoly of European exporters, and Indian brokers had to transact in this market through the medium of European brokers.

The Jute Balers' Association was mainly intended for Indian exporters. It was registered as an incorporated company in 1918. It is managed by a committee of four, elected from among the members.

In both these markets, transactions take place for actual spot deliveries, and no "futures" are allowed. Prices in these markets are determined by economic forces of demand and supply.

Futures Trading in Raw Jute and Jute Goods

The dispute about whether futures markets are necessary or even useful in the jute industry has been going on for most of this century. After 1900 the industry became bigger and its markets more varied and remote; and the system of producers of jute goods selling to the "bazar" rather than direct to shippers grew up, thereby multiplying the number of people taking risks. The growth of the mills and the great expansion of

the scale of their operations which took place about the time of the first world war would, one might have expected, increase their interest in a hedging market to protect themselves from unforeseeable price movements. But in fact the practice of selling their production forward to the bazar meant that much of the risk was transferred from the manufacturing side of the industry to the bazar; or in other words sales of their goods gave the mills a hedge, without the need of recourse to a regulated futures market. Nevertheless, there have always been sections of the trade that felt the need for a hedging market and, through many unsuccessful attempts to devise one, they have kept the question alive. Incidentally, no distinction is necessary in this general discussion between raw jute futures and jute goods futures because prices usually move together.

We have spoken of "forward" dealings and "futures" dealings. Since forward and futures both mean the same thing, what is the difference between these two types of transactions? Both names are misnomers, for forward contracts are the same as spot contracts, except as regards the date of delivery, while a futures contract is a quite different sort of transaction, and the important point about it is not its futurity. A spot or forward contract is an undertaking to buy or sell certain specified articles, named in the contract. A futures contract takes the price of one article as a measure, but it concerns a range of goods, set out in the rules of the futures market. Any acceptable class of goods within that range can be offered by the seller if delivery is called for, and the price of whatever commodity is actually offered is then calculated from the price of the "basic" commodity. This will not be clear at once, but an example should make it so.

If you order from a jute mill a quantity of hessian of specified width and weight to be delivered in three months' time at a price now agreed upon between yourself and the mill, you have made a forward contract. Actually, the mill might not insist that you take precisely the kind of hessian you ordered, provided you gave warning well before the three months were up that you would take something else very like it; but that would be a special privilege that the mill was granting you because you were a useful sort of fellow who enabled the mill to lay its production plans well in advance.

A futures contract might also relate to the purchase of hessian

three months ahead, but it would be quite different in that you could not go haggling about the price of one or other of the dozens of different varieties of hessian the mills manufacture, but would have to make your contract in terms of one and only one grade of hessian, which the futures market had taken as its basis. Let us suppose that this was 40" 10 oz. hessian. Then you contract to buy so much of that commodity at a price fixed now. But when the delivery date comes, supposing that you still intend to take the hessian and not to sell your contract by paying a difference, then the seller can offer you any other grade of hessian that falls within the range of hessians regarded as acceptable by the rules of the futures market. The price of what you got would be reckoned by conventional discounts from the price of 40" 10 oz. Obviously, it is certain that the seller would offer you the grade of hessian he is having most difficulty in disposing of elsewhere at that time. Already, it should be clear that a forward contract, since it names one particular variety of a range of commodities, is meant to issue in an actual delivery; the buyer knows what he is getting and that is why he ordered it. But in a futures deal, he does not know just what he will get, and since people obviously do not enter into that sort of deal with the serious intention of accepting delivery, a futures contract will probably end up not in a delivery but in the payment of a price difference. But it should be noticed that the futures contract is a real and binding contract nonetheless because unless the buyer pays the difference, then he has to accept the actual physical goods. This is the sanction behind the futures contract, though in fact it might seldom be invoked.

If this is the difference between a forward and a futures contract, it might be asked what is the point of futures? The goods mentioned in a futures contract will usually not be delivered and almost certainly never really existed. The volume of "wheat" involved in the futures deals in the United States in any one year is about 13 times as much wheat as is actually ever grown in one year. So futures dealing seems to be a sort of make-believe, and speculation in them looks like simple gambling. Not quite, because futures dealing makes a price, a price that reflects not just the exigencies of one buyer and one seller, but all the views of the market about the group of commodities involved. A public market-place where men from

every section of the jute industry and related industries could have their say about what the future price of, let us say, Assam bottoms, 40" 10 oz. hessian and B twill bags ought to be, would tell us all we wanted to know about the prospects of the whole industry at a glance. We could work out their views about the other grades of jute and jute goods by subtracting or adding the conventional margins from or to the prices of the three "basic" commodities. The three prices obtained from the futures market could be easily cabled all round the world and to all parts of India to people interested in jute or jute goods, and they could see at once what they otherwise could only learn by hearing what went on in hundreds of offices in the course of thousands of separate deals for particular types of raw jute or manufactures. So a futures market pools all the information available, and makes the process of basic price fixing public.

This tells us why a futures market is useful to others, but it does not tell us why individuals should actually buy and sell futures. There are various motives for doing this, of which we will look at the most important. Suppose a manufacturer had arranged to supply so many crore yards of jute cloth to a customer in four months' time. He would sell at a price that seemed to him reasonable at the time of making the contract, but he knows that all sorts of unexpected things can happen in four months that might influence the price of the raw material from which he is to make the cloth. Now the vital thing to notice is that if he is a gambler at heart, he will say, I'll take the risk—I might make a big loss but then again I might make a windfall profit. That is gambling. But if he is not a gambler, he will look for some way of insuring himself from the unexpected, he will look for a hedge.

It is often said that a hedge safeguards one from unexpected loss, but of course, it also removes the possibility of making an unforeseen profit if the market moves in one's favour after the contract is completed. So by hedging the manufacturer or business man restricts himself to his normal manufacturing or trading margin, which is just the opposite of gambling. This he does by going to the futures market and bidding against himself. Thus, if he has sold hessian for delivery in four months, he buys futures for the same or less quantity of his raw material (depending on how much he wants to insure himself) for four months. Then if prices

go up in four months' time he will lose on his first hessian contract but he will gain an equal amount on his raw jute futures. The thing the operator fears might not happen ; then he does not lose on his principal transaction but he does lose on his collateral deal, the futures operation. When he sees that all will in fact be well, he pays the difference on his futures deal and feels that he need not have been so cautious but at least he took no risks.

This explains the value of a futures market as a place for hedging, and it is plainly a very useful sort of thing. But a market that only served this purpose probably would not work at all, because everyone making use of it might take the same view of future prospects and therefore they would have no one to disagree with, no one to be against, as it were. So there have to be other people operating in the market who do not need to protect themselves on an actual physical transaction but who are very anxious to make profits by guessing the future movement of prices more astutely than other people. This they can do even though they have never owned a bale of jute to deliver against a contract to sell and would have nowhere to put a bale of jute supposing they got one against a contract to buy. To tell the bare truth they might not even be very sure what a bale of jute looks like. This does not matter because they can always get themselves out of a futures contract by paying a price difference, rather than by delivering or accepting jute. But if they are to operate on any scale at all they might sometimes have to make or accept physical delivery, so it is better that they be fairly substantial people and own or have access to a warehouse where they could store jute. Actual deliveries do take place as a result of futures contracts ; that is the sanction behind them and it is that that keeps them in realistic touch with the spot markets where actual goods are being bought and sold daily.

Now anyone with the least notion of how markets work in Calcutta must already have begun to smell the danger. We have introduced a number of speculators into our market, pointing out that they are not only useful but indispensable for its working. But how do we control the scale of their activities, and those of the people they are acting for? We said too that the operators in a futures market perform the important function of pooling the best information about the future ; but how do we know they will not invent information, make up stories that will send prices.

shooting up or down? These things could, and do, happen in the spot or forward markets, but just as it is the virtue of a futures market that is more sensitive to economic realities, so it is more liable to fluctuations for less genuine reasons.

So the problem of futures markets in jute and jute goods is how to stop the speculators, whose main function is an invaluable one, from running away with the price of India's prime export. Clearly a good deal depends on the price of jute goods, and while it is necessary that they be sensitive and react to all likely developments, it is also urgent that they do not jump about wildly according to the speculative fancies of any group of gamblers. There have been repeated attempts since 1912 to get a futures market going in Calcutta, but up to date all of them have failed ; some have been closed down by law and others by police raids. There is still a minor nuisance called "katni" (which is a variety of completely uncontrolled and unregulated futures market) operating in the city, so we have the worst features of speculation without any of its undoubted advantages.

Many plans for a regulated futures market have been drawn up, but all sections of the trade and industry have not been able to agree on them. Recent legislation sets the stage for another attempt in this direction. As remarked above, we have not distinguished in this discussion between raw jute and jute goods futures, because much the same generalities apply to both and prices usually move in the same direction. But when we come down to specifying rules for the conduct of a futures market, different considerations will have to be borne in mind. The problem of grades, which will be the "basic" grade and which other grades can be tendered against a futures contract, will be much more intricate questions in the case of raw jute than of jute goods. But the principal requirements will be the same in each case. These are that there must be a limit to the daily fluctuations in prices, that members of the market must put up a substantial deposit in cash or securities and their operations must be limited with regard to their deposits, that their clients also must put up a margin, that there be clear agreement about grades and standards, and that the market must be run under the supervision of a responsible body on which the mills, the trade and the Government have representation. There are a host of

minor matters that must be clearly settled, but these have been dealt with in earlier comprehensive studies of jute futures, notably by Professor John Todd. Lastly, it should be emphasised that if futures trading is permitted, it must be only under the terms approved and only in the place approved. All other speculative markets would have to be firmly suppressed once for all.

East India Jute and Hessian Exchange

After an interval of more than five years the East India Jute and Hessian Exchange Ltd. has been licensed by the Government of India for transacting futures trading in raw jute and jute goods from March, 1958 under the provisions of the Forward Contracts (Regulation) Act, 1952.

Hedging facility is almost a *sine qua non* for the jute industry which occupies an important position in the Indian economy. The main purpose of a futures market is to allow forward trading in hedge contracts. It enables large purchases and sales of goods to be made at short notices in advance of delivery and even in advance of production. It brings about a certain measure of stability in prices and does not allow goods to be abnormally cheap or abnormally dear at any stage and thereby eliminates rapid and violent price fluctuations most to the advantage of producers of raw jute, manufacturers of finished goods and consumers. It helps operators adjust their stock position continually to changing prospects of supply and demand. It helps bring about an integrated price structure.

To avoid the possibility of any abuse of the facilities given for trading without actual delivery of goods and to eliminate the possibility of manipulation by professional speculators whose unscrupulous activities have on certain occasions in the past brought bad name to futures markets, the Articles of Association of the East India Jute & Hessian Exchange Ltd. have been thoroughly scrutinised and modified and adequate safeguards have been incorporated in the Articles and bye-laws made thereunder against such a situation. It is with this object in view that representatives have been taken from all interests in raw jute and jute goods on the board of directors of the Association, which control the management of the Exchange. There are also Government representatives on the board.

The following main provisions have been incorporated in the hedge contracts trading by-laws:—

(a) There are three types of standard contracts—contract No. I covering hessian cloth, contract No. II covering sacking bags and contract No. III covering raw jute. For each of the contracts there is a *basis* quality for tender and a *basis* price has to be offered, although under the terms of the contracts alternate permissible grades or varieties may be tendered with the payment of premium or discount, as may be fixed by the board.

(b) The terms of tender and delivery during the delivery months within the jute year are laid down from the beginning, so that conditions on which trading is permitted are well defined. The system of “tender” endeavours to keep the spot and futures markets closely bound together so as to prevent any substantial discrepancy in prices.

(c) Provisions have been made requiring members who trade in the ring of the Association to make initial security deposits of Rs. 10,000 for trading in raw jute, Rs. 10,000 for trading in jute goods and Rs. 20,000 for trading in both commodities. There is a free limit of quantity for each of the commodities up to which a member can have a net open outstanding position against his sales and purchases, but if he trades beyond the free limits he has to pay margin deposits for any trading outside the limits. Moreover, there is an overall limit beyond which no member can maintain a net open position about his trade in any circumstances. In that way any considerable speculation or cornering of goods is avoided. It provides safety to a considerable extent for the client members in case a broker defaults.

(d) In respect of all outstanding transactions, provision has been made for weekly clearing. On the basis of weekly clearing prices as fixed, the members have to pay cover money in respect of transactions calculated on the basis of differences on settled or appropriated contracts. The clearing transactions are made through a clearing house of the Association.

Provision has been made for special clearing in the event of a price of a hedge contract falling below or rising above the last weekly clearing rate to the extent as specified in by-laws. It is an additional safeguard.

(e) The bye-laws give considerable powers to the board of directors and, if necessary, to the Forward Markets Commission,

to take special steps in the event of any emergency arising in raw jute and jute goods trade, or in the case of a squeeze or a corner or bear raids. In such events trading may be prohibited for a certain period, or a maximum or a minimum price basis may be fixed for trading, the rates and systems of margins may be varied for any delivery month or months, etc. and outstanding transactions may be directed to be cleared.

(f) The ring members, carrying on transactions in the ring of the Association, may charge brokerage to their clients in respect of sales and purchases. The brokerage has been kept at reasonable rates but bye-laws provide for higher rates which may be paid by non-members, against members for giving facilities to the latter clients.

(g) Provision has been made for arbitration through the arbitration machinery of the Bengal Chamber of Commerce and Industry in the case of disputes arising in respect of hedge contracts entered into by parties.

The working of the Exchange has so far proved to be satisfactory. Excessive speculation has been regulated and price fluctuations are moderate. An interesting feature is that price movements in the futures market are in line with trends of the ready markets.

If movements in the futures market are regulated according to conditions of supply and demand, it is expected that the East India Jute and Hession Exchange will fulfil the purpose of a futures market.

Narayanganj (Eastern Pakistan) Jute Market

East Pakistan is a principal raw jute producing centre. Jute is a chief economic product of Pakistan. It constitutes a principal item of exports.

Narayanganj is the jute-marketing centre in East Pakistan. The process of marketing is more or less the same as in Calcutta. In Narayanganj, jute is brought by middlemen from mofussil areas, and sold in kutchra and pucca bales, chiefly for export. Pressing arrangements are fast developing, and markets in baled jute have been organised.

For preventing exploitation by middlemen and ensuring

economic prices to growers, the Pakistan Jute Marketing Board has been set up. The Board helps the marketing of jute on behalf of cultivators by direct purchases, storing raw jute and organising co-operatives among primary growers. Although the Jute Board has helped maintain prices, agitation is made for nationalisation of the jute trade. Indications are that the authorities are not inclined to favour nationalisation at the present stage. It is held that the trade should remain in private hands, as correct prices cannot prevail in a nationalised industry. Mr. Fazlur Rahman, Pakistan's former Commerce Minister, stated, "The future well-being of jute depends upon a large number of countries installing jute mills as rapidly as possible and, in competition with one another, offering the manufactures at prices competitive with other fibres and paper. But countries will install jute mills instead of factories for manufacturing other packing material only if they are sure not only that supplies of jute will be available, but that they will be available at prices not higher than those fixed by demand and supply. The psychological effect of raw jute nationalisation will be to create a suspicion that the Government wishes to use the virtual monopoly position of raw jute for extracting monopoly prices for it. Nor, on the other hand, would the Government find it easy to determine each year the appropriate price dictated by all the economic factors impinging on it, to follow it through the year with adjustments from time to time as demanded by changing conditions and to convince a suspicious world that the prices charged are economic prices. Under conditions of private trade, prices emerge and are adjusted by a large number of buyers and sellers bargaining from day to day in respect of each specific variety and grade of jute. These conditions cannot be reproduced in a nationalised trade. Therefore, nationalised prices will for most of the time either tend to lag behind or remain above appropriate economic prices. To the extent to which they lag behind economic prices they will result in a loss of foreign exchange; to the extent to which they remain above levels they will have induced jute substitutes to make inroads into the legitimate sphere of jute". Nationalisation implies Government taking over buying and selling from the private trade. Government, said Mr. Rahman, could not do this work except through a host of minor officials and costs of distribution as a result would increase.

Marketing of Wheat

In India and Pakistan the following agencies assemble wheat from growers:—

1. Growers, landlords or cultivators who bring their own wheat to the market.
2. Cultivators who collect products of other growers.
3. Landlords collecting the products of their tenants.
4. Village banyas (shopkeepers).
5. Itinerant dealers and petty merchants move from village to village (beoparis) for collecting wheat.
6. Kachcha arhatiyas or small commission agents in the primary or assembling markets dealing in wheat.
7. Co-operative commission shops or sale societies for transacting wheat.
8. Pakka arhatiyas or large commission agents and whole-sale merchants and mills transacting in wheat.

Wheat markets are divided into four groups, such as

(1) *Primary Village Markets*.—They are held periodically and they include *penth*s, *hats*, *ghandis* and fairs. They function as primary assembling centres for neighbouring villages and they constitute final retail distribution markets. The days of *penth*s or *hats* are so arranged that itinerant dealers can visit the neighbouring markets. They are in direct contact with the village producer who brings his produce for bartering with cloth, utensils, ornaments, cheap metals, kerosene oil, etc.

(2) *Secondary Markets*.—They are held daily. In Punjab and the western districts of Uttar Pradesh a number of good mandis exist in every district. Kandla and Shamli (Muzaffarnagar), Deoban (Saharanpur), Khatauli, Baraut (Meerut), Sikandarbad, Dankaur, Khurja (Bulandshahr), are important secondary markets in U.P. The organisation is similar to that of the principal mandis or markets. Wheat is stored in Khattis and Kothas. There are Pay Offices of the State Bank of India or the Allahabad Bank, Ltd. The mandis collect wheat from the primary mandis and from the villages within a radius of 12 to 16 miles. Wheat is transported by rail or road to the principal mandis. The mandis have Chambers of Commerce which regulate speculation and lay down rules and regulations concerning business.

(3) *Principal Markets or Mandis* include the big wholesale markets. During a season wheat arrives not only from the mandis but also from distant markets. For example, large consignments of wheat arrive in the Hapur mandi, not only from the U.P. markets, but also from Punjab and Hapur. Ghaziabad, Muzaffarnagar, Chandausi and Cawnpore in U.P. are leading markets in northern India. There is no clear-cut division between the secondary markets and the secondary mandis. The local associations or panchayats regulate business in the mandis. As a result, market charges and practices are standardised. Although there is no representation of producers on the committees, the charges have been reduced and malpractices minimised.

(4) *Terminal Markets.*—Terminal markets in Ports of Karachi, Bombay and Calcutta are concerned with the export trade as well as with the internal distribution. On arrival wheat is stored in godowns or sheds or warehouses owned by port authorities in close proximity to the docks before it is removed to private godowns or railway sheds for distribution. Shops and offices of merchants at Karachi are located in the neighbourhood of Bunder Road but stocks remain at the Thola Produce Yard about a mile away, or at Kiamari, three miles off. The Karachi Indian Merchants' Association has a big hall for transacting spot and forward business.

In Bombay there are five markets. The spot market is near Dara Bunder. The Grain Merchants' Association, the Marwari Chamber of Commerce and the Grain and Seeds Brokers' Association are leading trade associations for organising "futures" trade in wheat.

In Calcutta large stocks of wheat are stored at Kidderpore. At Howrah the railways have provided a shed where brokers meet for transacting business on the basis of samples. They are permitted to draw from consignments of wheat at the station. The Calcutta Grain, Rice and Seeds Association, and the Indian Produce Association take part in the marketing of wheat.

Marketing Practices.—Market practices are governed by mercantile usage and tradition. There is not much difference in marketing charges or practices of mandis. The same system prevails in every State except for markets which are regulated by law as in Madhya Pradesh or Hyderabad or are standardised

because of activity of Chambers of Commerce or of Trade Associations.

During the marketing season the Kachcha arhatiyas send their touts or servants to receive sellers outside the towns, and they assist the latter at octroi offices. In places such as Delhi, the arhatiya's man pays the toll or octroi on behalf of a seller, to be adjusted from his accounts after sale. The terminal tax is sometimes vexatious and inequitable. For example, at Bulandshahr in U.P., charges are based on conveyance—one anna for a man's load, four annas for a pony load and one rupee for a cart load. The load may be of wheat, cotton, or cowdung. Whether a cart contains four maunds or forty maunds, the duty is the same. An owner is obliged to pay *hag* or *mamuli* to the octroi staff.

Business in the mandis begins after sunrise. By noon sales and deliveries are completed, and in afternoons accounts are settled.

Methods of Sale

Sales of wheat are made in one of the following ways:—

1. Under cover or cloth.
2. By auction.
3. By private treaty or agreement.

The first system prevails throughout the country, such as Lyallpur and Amritsar in Punjab and Hathras in U.P. It is also found in Indore and Madhya Pradesh. Rates under the *Purbah* system are settled either by a single bid as in Madhya Pradesh markets, or by repeated bids as in Punjab.

In the auction system an arhatiya, or a broker invites bids and the highest offer is accepted. The system prevails in South India, west U.P. (Hapur, Muzaffarnagar, etc.) and in Punjab (Ferozepur, Moga, etc.). The practice is also found in Madhya Pradesh, Rajputana and Madhya Bharat. In Drug, Rajnandgaon and eastern Madhya Pradesh there are two auctions. The first is conducted by a market official representing a municipality. He auctions each heap to dealers and brokers. If heaps are sold in this manner, a second auction takes place. Each broker auctions his stocks to buyers.

In an open bid system, buyers may come any time and give offers. A *kachcha* arhatiya may or may not accept them.

The practice is common in Delhi, Punjab, Muzaffarnagar, Agra, Cawnpore, Benaras, Lucknow, Uttar Pradesh, Madhya Bharat, Rajasthan, Bihar and Sind. In Hyderabad (Deccan) the latter two systems are common.

Each system has advantages and defects. The cover system claims that buyers who do not know each other's bids offer maximum rates. In the auction system they know each other's bids and bidders improve offers gradually. If an arhatiya is dishonest he can cheat a seller who is ignorant of bids under cover. Generally it does not happen. In big wheat markets of Punjab the cover system is common. It is found reasonably satisfactory if final rates are announced openly.

The system of "dara sales" for wheat and other grains prevails in the canal colony markets of Punjab, and in U.P. (Hapur, Ghaziabad and Muzaffarnagar). Although it saves time and trouble, and discourages quality, arhatiyas do not distinguish between different qualities. They may favour special clients secretly.

The basis of sale of wheat in a market may be subject to:—

(a) the removal of dirt and large impurities by *rulai*, i.e., cleaned wheat;

(b) fixed deductions (*karda*) for dirt, according to usage which may be made either before or after price fixing;

(c) variable deductions settled after goods are examined for refraction and several appearance; and

(d) *dhalta* or *dane* (weighing allowance). It varies from 4 seers per maund to $\frac{1}{2}$ seer per maund. It is $\frac{1}{4}$ seer per maund except in Bihar where it is $\frac{1}{2}$ seer per maund.

Standard-Contracts.—In markets having registered trading associations transactions are done on a standard basis. The associations provide particulars of sales. If quality varies, they provide rates of discount and premium in the case of mutual or reciprocal contracts but contracts in the mandis of Ludhiana, Chandausi, Muzaffarnagar and Calcutta are of non-reciprocal nature, indicating that a seller will not get a premium, if the refraction in the grain supplied by him drops below a tolerance limit. There is no uniformity in such contracts, in respect of refraction, free tolerances, months of delivery, units of sale, cover or margin money, settlement dates and conditions of payment and

arbitration. Sales on the basis of standard contracts are of two kinds, (a) ready and (b) forward.

Ready sales on the basis of a standard contract are confined to places where wheat is stored in khattis or kothas as in Hapur, Ghaziabad, Chandausi and Muzaffarnagar (U.P.) and Amritsar. Lyallpur, Gojra and Sargodha (Punjab).

Mills' Contracts.—Mill contracts are made between the trade and milling companies. Terms of a contract cover the equality of goods, the quantity, the price and the source of origin of wheat. They include the kind of bagging, the method of delivery and payment and the amount of refraction which may be tolerated by a buyer. Provision is made for arbitration to settle disputes, according to rules agreed between the parties. In the case of non-delivery a buyer is given the following options:

- (a) to cancel a contract if it is not fulfilled ;
- (b) to repurchase in a market at market rates quantities which are undeliverable, a seller being responsible for losses suffered by a buyer ;
- (c) to charge a seller with the difference in prices, or
- (d) to grant an extension for the completion of a contract.

Usually a buyer advances 80 per cent. of the invoice price against a clean railway receipt.

Questions

1. What is meant by business exchange? Show how business is carried on at exchanges generally or at a particular exchange. State the advantages that the business exchange confers on merchants and dealers. (B. Com., All., 1960).
2. What is a Produce Exchange? Explain some of the beneficial points of speculation. In what respects does it differ from gambling? (B. Com., Cal., 1962).
3. What is a Market? Distinguish between (i) a Market for Commodities, and (ii) a Market for Securities. Explain briefly the important factors that have contributed to the development of the modern Market. (B. Com., Cal., 1960).
4. Mention some of the methods by which a trader usually indicates quality of goods which he desires to purchase. (B. Com., Cal., 1923).
5. Discuss critically the Jute Futures Market in Calcutta. (Institute, Bus., Cal., 1960).
6. Describe the working and constitution of at least two Produce Exchanges in India.

7. Discuss critically futures trading in jute goods with suggestions for improvement. (Inst. Bus., Cal., 1960).
 8. Can you describe fully the normal procedure through which the marketing of any one of the following commodities takes place in Bengal, namely, jute, tea and potato? Indicate the functions that each intermediary trade renders in the process of transfer from the producer to the ultimate consumer. (B. Com., Cal., 1945).
 9. Discuss the uses and abuses of speculation in commodity futures markets. (B. Com., Andhra, 1961).
 10. Explain the organisation and working of any mandi or market, you are familiar with. (B. Com., Agra, 1961).
 11. Describe briefly the organisation and working of the E. I. C. A. or any other produce exchange in India. (B. Com., Agra, 1960).
 12. Discuss the beneficial as well as adverse influences of the Stock and Produce Exchanges upon industry and trade. (B. Com., Agra, 1958).
 13. Give an account of the organisation of either (a) the jute trade or (b) tea trade in Bengal and state what improvements, if any, are called for in the interest of the producers. (B. Com., Cal., 1947).
 14. Discuss the uses and abuses of speculation in commodity future market. (B. Com., Cal., 1959).
 15. Describe fully how any two of the following commodities are marketed:—(a) Jute, (b) Tea, (c) Coal and (d) Textiles. (B. Com., Cal., 1950).
 16. What are the essential features of an organised produce exchange? Explain clearly its advantages. (B. Com., Cal., 1952).
 17. Write short notes on any four on the following:—(a) Investment Trusts; (b) Arbitrage; (c) Window-dressing; (d) General Average; (e) Chain Stores; (f) Regulated Market. (B. Com., Cal., 1952).
 18. Distinguish between a Stock Exchange and a Produce Exchange. What is meant by "dealing in futures"? (B. Com., Gauhati, 1962).
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CHAPTER XXV

STOCK EXCHANGE

Economic Significance

A stock exchange is an important capital market as it deals in stocks and shares. It helps mobilise savings and capital. People invest their money in industry and commerce through the medium of stocks and shares. By providing markets for shares and stocks, a stock market increases their marketability and liquidity. People invest in stocks and shares, as they are marketable at true values, which are determined by their interest-earning or dividend-yielding capacities.

New York Stock Exchange

The New York Stock Exchange is a private and voluntary association, consisting of many members. A non-member may become a member by buying a seat from a deceased or retiring member, provided his membership is approved by a Committee. Membership is representative of influential interests, ranging from business to individual capitalists. Capitalists become members as they can do business through brokers at a cheaper rate of commission. A corporation is not allowed to become a member. No person is admitted as a member unless he is respectable and financially sound.

Management

The stock exchange is managed by a Governing Committee, consisting of forty-two members. A governor holds office for four years, and ten governors are re-elected from members every year. In addition, there are President, Treasurer and Assistant President. There are many sub-committees of the Governing Committee. Some functions are delegated to corporations in which stocks are held by governors on behalf of members as trustees. For example, the Stock Clearing Corporation is under the charge of supervising exchange contracts; the New York Stock Exchange Building Company is the owner of the fixed assets of the New York Stock

Exchange ; the New York Stock Exchange Safe Deposit Company arranges for the safe custody of documents of members of the exchange.

Dealers and Brokers

Members of the New York Stock Exchange can act either as brokers or traders, or as both. Big capitalist members act on their own account only. Other members act as brokers or traders. In the same transaction, one cannot act both as a trader and a broker. The combination of both functions by members is not allowed in the London Stock Exchange, in which a member is either a dealer or a trader. If members act as brokers, they are entitled to brokerage as remuneration. They are not allowed to take any difference between the buying and the selling price of stocks or shares, if they act as brokers.

A broker member may act through another broker, and he is then called an under-broker, and is entitled to a brokerage of two dollars per 100 shares. Such an under-broker is called a "*Two Dollar Broker*". Members who act on their own account only are called "*Room Traders*". The majority of members act as members and brokers.

Transactions

Every transaction on the New York Stock Exchange is settled daily. A broker demands from his client a margin varying from 10 to 50 per cent. of the price of a security. If value rises, a broker pays the difference to his client after deducting his advances. If prices move down and the margin does not cover the difference, further margin is demanded. If it is not paid, a broker sells a security and covers himself. This kind of business by depositing margin encourages speculation. The New York Stock Exchange is concerned with American stocks and shares. Other securities are dealt in occasionally.

Business is done between 10 A.M. and 3 P.M., and anybody, doing business afterhours is subject to a penalty of 50 dollars.

Pairs Stock Exchange

The Paris Stock Exchange is called *Bourse*, and it is distinct from other stock exchanges. It consists of two sections, namely (i) the Stock Exchange, dealing in securities of France and

other countries, and (ii) the Commercial Exchange, dealing in commodities.

Unlike other Stock Exchanges, the Paris Stock Exchange is State-controlled. There are many members who are licensed by the Government to carry on business, either as brokers or dealers or as both. If they do business in a dual capacity of a broker and a trader, they are required to deposit with the Government an amount of 1,25,000 francs, on which interest at the rate of 4 per cent. is allowed. At the time of retirement, a broker may sell his office and transfer his deposit to a buyer. Brokers may be appointed by the French Courts to act as Trustees for the sale of securities.

Business is conducted between 11 A.M. and 3 P.M. but unofficial business may be done afterhours.

Forward delivery and account transactions are permitted on the Paris Stock Exchange. There are contango, backwardation, option and margin systems in the Paris Stock Exchange.

In addition to the official stock exchange, there are private stock exchanges in Paris, in which members transact business in securities. In private exchanges members are called *bankers*.

Berlin Stock Exchange

The Berlin Stock Exchange is called Bourse. It is State-controlled, and transactions are regulated by rules of the Government. Any kind of speculation is discouraged.

The constitution of the Berlin Bourse is democratic. There is no restriction on membership, which is given on Government approval. Any person can become a member, provided he is supported by at least three existing members, and members who propose a new member must guarantee for him an amount of 5,000 reichsmarks. It is not necessary for a member to be rich. Importance is attached to capability and honesty. There is no entrance fee nor is there any fixed annual subscription. The practice is that every member pays an annual fee in line with his turnover. A firm is required to pay money every year for each of its partners who can go inside the Exchange, and money is also paid for every authorised clerk or assistant.

Business is done between 12 A.M. and 2 P.M. but thirty minutes are allowed after the close for transacting business.

Transactions are regulated by Government rules and regulations. Orders for buying or selling securities are settled at official prices which are fixed for each day in line with demand and supply. Such a system of price fixing safeguards the interest of the public.

London Stock Exchange

The London Stock Exchange is an important capital market. Established in the early part of the nineteenth century, it was organised in its present form in 1886. The London Stock Exchange may be called a collection of many markets, as the Stock Exchange consists of many sections, dealing in different securities. Each section makes a market by itself.

There is dual control in the management of the London Stock Exchange. The control over finance, including fixing of entrance fees and annual subscriptions, is vested in an executive *body of nine members*, who are elected from members, three of whom retire every five years. The *Committee for General Purposes* is in charge of the management of the stock exchange. The Committee consists of thirty members who are elected on an annual basis. The Committee frames rules and regulations for guiding the conduct of the members and their transactions. In the case of a dispute, it is referred to this Committee, and no member may go to a court without the previous sanction of the Committee.

Members

There are two types of members, namely *brokers* and *jobbers*. Brokers buy and sell on behalf of the public, and they are remunerated by commission or brokerage. Jobbers denote members who buy and sell shares. They cannot deal directly with the public and their transactions are confined to only members of the stock exchange. A jobber may not enter into partnership with a broker. A jobber makes profits by differences between prices of purchases and sales.

A broker is a middleman and he acts through a jobber. A jobber acts only for himself. A jobber buys and sells stocks and shares any time. If he is approached for a price quotation,

he quotes both his buying and selling prices. There is a narrow margin of difference between the buying and the selling prices, as he does not know whether the enquirer will turn out to be a buyer or a seller. By quoting a "double-barrelled" price, as it were, for a security, a jobber helps make prices steady. In other exchanges, speculation causes high or low prices. Breaks in prices are uncommon in the London Stock Exchange because of a jobber who quotes both selling and buying prices. If prices of securities move up, a jobber sells and prices decline. The difference between buying and selling prices of a jobber is called a "Jobber's Turn".

There are authorised clerks of stock-brokers who are allowed to transact business on behalf of their principals but unauthorised clerks cannot do so. The latter may enter the stock exchange for assisting their principals.

Conditions of Membership

An application for membership of the London Stock Exchange is to be made to the Committee for General Purposes. It is accompanied by three guarantors who must be existing members. Each has to give a surety of £500 in the case of default of a new member for meeting his obligations within four years of admission. In the case of an applicant who has worked for four years either in the House, or in the Settling Room with three years' work in the House, two guarantors, each standing surety for £300, are required. Such a clerk can become a member with one share only, while others must have three shares. Barring a few exceptions, the nomination of an applicant must be recommended either by a retiring member or by the representative of a deceased member. Members must be re-elected every year, and this helps the Committee control members. A new member must pay an entrance fee of 600 guineas and an annual subscription of 100 guineas. If a clerk becomes a member he pays 300 and 60 guineas, respectively.

Rules and regulations of the stock exchange help maintain integrity of members in respect of their dealings.

Members are suspended if they fail to observe the rules of the stock exchange. If a member fails to meet his obligations he

is "*Hammered*" and posted as a defaulter. "Hammering" is an old practice. An officer of the Exchange mounts a rostrum which is placed on the floor of the House and he sounds with a hammer like an auctioneer. After attracting the attention of members, defaulting member's name is posted.

Settlement

Transactions are called "*Cash*", if they are completed by delivery of securities for cash payment. They are called "*Account*," if they are postponed till the next "*Account*" Day.

A fortnight is given for an "*account*". Settlement of the transaction takes place after a fortnight. A settlement lasts for four days. On *Contango Day* or the first day parties decide mutually whether a business is to be closed for cash, or to be postponed to next settlement. If the transaction is postponed, a buyer pays a charge to a seller for the period of postponement, and it is called "*contango*". Similarly, if a seller fails to give delivery of security, he pays a charge to a buyer for the period of postponement, and it is called "*Backwardation*". The second day of a settlement is called "*Ticket*" or "*Name*" day, as on this day a broker hands over to a jobber the Ticket, which gives the name of a buyer or a seller. The third day is called the "*Intermediate*" day, as documents are then given for completing a deal. The last or fourth day is the "*Settling*" or "*Account*" Day, when a transaction is completed, or arrangement is made to carry it over to the next settlement.

As transactions on the London Stock Exchange are completed either for cash, or they are postponed until the account day, wild speculation is not common. Charges, such as *contango* and *backwardation*, discourage carrying forward a transaction from one settlement to another. Prices of securities on the London Stock Exchange are therefore steady.

The Stock Exchange List gives prices of transactions which are done on the stock exchange. After a transaction is made between a jobber and an outsider through a broker, the latter sends *Contract Bought Notes* and *Contract Sold Notes* to parties confirming transactions.

CONTRACT NOTE

January, 6th 1962.

A. Smith, Esq.,

Court Road, London, E.C. 2,

Bought for H. Edwards, Esq., Manchester.

300 Indian Copper Corporation shares @ 1s. per share ... 515

Commission @ $\frac{1}{2}$ per cent. and Stamp ... 11s.

For 10th January 1962.

"Carrying Over" and "Making-up Price"

A speculator who buys a security postpones delivery by paying cash from the contango day to the next fortnightly settlement. This happens in two cases, namely, (a) if he buys a security in the hope that there will be a rise in the value so that he can sell it at a profit, or (b) if he sells a security hoping that the price will fall, so that at the time of delivery he will buy back at a lower price and deliver it, but in both cases his expectations may go wrong obliging him to carry forward. An official of the stock exchange, on the first settlement day, fixes a "making-up" price (which is the midday market price) as a basis on which prices of carry-overs are calculated.

Stock Exchange Clearing House

A Stock Exchange Clearing House is managed in the same way as a Bankers' Clearing House. Members send their lists to a Clearing House, giving details of transactions. Purchases are given on one side and sales on the other side. Clerks check the dealings and issue tickets to members for the remainder of securities which they are to deliver. A Clearing House is concerned with securities which are transacted. Members do not necessarily become members of a Clearing House.

A Stock Exchange Clearing House exists for the purpose of comparing transactions of members and of facilitating mutual settlement. Although it helps the adjustment of transactions by actual deliveries or by the payment of price differences, it takes no notice of the value of the securities. At the end of each clearing account, members send their lists of transactions to a Clearing House for comparison. The system of clearing securities was

first adopted by the Bombay Stock Exchange in 1921, and it was later introduced in Calcutta.

Tape Prices

The Exchange Telegraph Company installs and operates in offices of subscribers a machine which reproduces on strips of paper, called "Tape", the stock exchange prices of a day. So a person can see from the "Tape", coming out continuously from the tape machine, prices of shares as they are transacted on the stock exchange.

Indian Stock Exchanges

The working of Indian stock markets is regulated by the Securities Contracts (Regulation) Act 1956. The executive authority for enforcing the Act is the Stock Exchange Division of the Finance Ministry. The main intention of the Act is to ensure uniformity in the working of all stock markets in order to safeguard the interests of the investors. As a result, almost all rules and regulations, including the various bye-laws of all stock exchanges, have been uniformly formulated under the direction and approval of the Stock Exchange Division of the Finance Ministry.

An important provision of the Securities Contracts (Regulation) Act is that no stock market in India can operate without obtaining a licence from the Government of India. At present there are seven licensed stock exchanges—at Calcutta, Bombay, Madras, Ahmedabad, Delhi, Indore and Hyderabad. Except for the Bombay stock market which has obtained a permanent licence, the other stock markets have obtained licences tenable for a specified period of time. The Calcutta Stock market holds a licence for five years. Why this arbitrary system of licencing has been adopted is difficult to understand.

Although the rules and regulations of the various stock markets are more or less uniform, their constitutions differ. The Calcutta, Delhi, Madras and Hyderabad stock markets have been constituted as incorporated bodies under their own articles and memorandum of association while the Bombay and Ahmedabad stock markets have been formed by a deed.

Speculation Restrained

In order to restrain speculation, the stock markets have adopted various remedial measures in collaboration with the Stock Exchange Division of the Finance Ministry. Not only have deposits to be made if the turnover of a member exceeds a specified limit; trading has been restrained by the adoption of an automatic margin system. As fluctuations are generally wide in the case of clearing shares, the system of automatic margin is enforced. At the end of each settlement, the make-up price of each clearing share is fixed. When the market price of a share rises or falls by more than a specified margin over the make-up price, operators are forced to pay the requisite margin on their turnover. As a result of the margin deposit, activity is automatically restrained. The system of automatic margin has brought stability in the stock markets during recent years.

Securities Contracts (Regulation) Act, 1956

The Act provides that no stock exchange will be permitted to be formed or to operate unless it has been granted recognition by the Central Government. This recognition will be subject to the stock exchange concerned having its rules and bye-laws conforming to the conditions prescribed in this respect by the Central Government. These conditions *inter alia* relate to (i) qualifications for membership of stock exchanges, (ii) the manner in which contracts shall be entered into and enforced as between members, (iii) representation of the Central Government by its nominees on the governing bodies of the stock exchanges, and (iv) maintenance of proper books of accounts by the members and their audit by chartered accountants when so required.

The application by a stock exchange for recognition should be made in the manner prescribed by the Central Government and should be accompanied by certain documents. The Central Government has the power of withdrawing the recognition of a stock exchange, and also of superseding the governing body of a recognized stock exchange if it is considered necessary in the interest of the trade or in the public interest. In emergency it may also suspend business of a recognized stock exchange. In addition the Central Government has been vested with the power to call for periodical returns or direct enquiries to be made. Such

enquiries may relate either to the affairs of a recognized stock exchange or the affairs of any of its members in relation to the stock exchange. When such enquiries are made all related persons shall be bound to produce before the enquiring authority all relevant papers, documents and books of accounts. A recognized stock exchange must furnish the Central Government with a copy of the annual report, and such annual reports must contain particulars as prescribed by the Central Government.

A recognised stock exchange shall be, with the previous approval of the Central Government, permitted to make bye-laws for the regulation and control of contracts. The Central Government may, in consultation with the governing bodies, direct the stock exchange to make any rules or amend any rules previously made. The bye-laws as made by the stock exchanges must provide for the opening and closing of markets and the regulation of the hours of trade; a clearing house for periodical settlement of contracts and differences thereunder relating to specified securities; the regulation or prohibition of blank transfers; the regulation or prohibition of budlas; the determination and declaration of market rates for securities; the terms, conditions and incidents of contracts either between members or between a member and his constituent; conditions for the listing, withdrawal and suspension of securities on the stock exchange; the method and procedure for the settlement of claims or disputes including settlement by arbitration, the levy and recovery of fees, fines and penalties; fixation of a scale of brokerage and other charges; exercise of powers in an emergency including the power to fix maximum and minimum prices for securities; regulation of dealings by members for their own account; exercise of powers in emergencies resulting from pooled, syndicated and cornering operations; the limitation on the volume of trade done by any individual member in exceptional circumstances; the obligation on the part of any member to supply any desired information to the governing body; and provision relating to the suspension and expulsion of members. The Central Government has the power, either on a request from a stock exchange or on its own motion, to make or amend the bye-laws of any recognized stock exchange either by previous publication thereof in the Official Gazette or without.

Generally speaking all transactions (other than those specified for settlement through a clearing house) should be on "spot

delivery contract" basis, that is to say, contract which provides for the actual delivery of securities and the payment of a price therefore either on the same day or on the next day. All contracts other than those for spot delivery shall be illegal in a notified area unless they are entered into between members of a recognised stock exchange. They shall also be void if they are in contravention of any of the bye-laws. In respect of such contracts a member of a recognised stock exchange shall not also be permitted to act as a principal with any person other than a member of a recognised stock exchange without the consent or authority of the latter. To prevent undesirable speculation in specified contracts the Central Government has the power to prohibit contracts in the same. No person other than a member of a recognised stock exchange shall deal in securities in a notified area without obtaining a licence from the Central Government. Option dealings in securities shall be illegal.

The Central Government has the power to compel the listing of securities by public companies, and also to hear appeal against refusal by stock exchanges to enlist the securities of any public company. It is further provided that where a stock exchange refuses to enlist a security the company concerned must be furnished with the reasons for such a refusal.

Claims over title to dividends were a frequent source of dispute between the buyer and the seller. So it has been provided that it shall be lawful for the seller of any security whose name appears in the books of the company to receive and retain any dividend, subsequent to the sale of the shares unless the buyer gets his name registered in the company within 15 days of the date on which the dividend becomes due, extension being permitted in certain cases.

The Act provides that for contravention of the provisions relating to submission of papers, documents, records, etc. before an enquiring authority or for inspecting by the Central Government or for entering into illegal and voidable contracts, or for dealing in prohibited securities or for dealing in options in securities the person committing the offence shall be punishable with imprisonment for a term up to one year, or with a fine or with both. Again a member acting as a principal for a non-member without his consent or authority, or a company failing to get its name enlisted when directed to do so, or a stock exchange refus-

ing to divulge the reasons for which the enlistment of a company is rejected, shall be punished with a fine up to Rs. 1,000.

Further, it is provided that no action shall lie against the governing body or any member, office-bearer or employee of any recognised stock exchange for anything done in good faith in pursuance of the Act, rules or the bye-laws.

The Act does not apply to the Government, the Reserve Bank of India, any local authority or any corporation set up under a special law, and it repeals the Bombay Securities Contracts Control Act, 1925.

Cash Shares

There are two systems of trading on the stock exchange. Shares may be bought either on cash basis or forward basis. When shares are bought and sold on cash basis (otherwise known as "hand delivery system") the shares are required to be taken up or given delivery of, against the full payment of the value of the shares in cash. Under this system the question of "delivery" of the securities bought and sold, comes soon after the date of transaction. As a matter of fact shares bought and sold on cash basis in a week, generally come up for delivery by Wednesday the following week.

Cleared Shares

When business is done on forward basis (otherwise known as the "clearing system") the sales and purchases made in the market, are adjusted and settled at the end of a fortnight. The settlement is effected through the Clearing House, and it takes two different forms:

- (1) Settlement of cash differences, and
- (2) the delivery of shares and transfer deeds against the payment of the value in cash.

Forward business can take place only in what are called the cleared securities of the market. In the Calcutta stock market there are only 18 such securities. These securities are the ordinary shares of—

1. Indian Iron & Steel Co. Ltd.
2. Indian Copper Corporation Ltd.
3. Textile Machinery Corporation Ltd.
4. Orient Paper Mills Ltd.

5. Burrakur Coal Co. Ltd.
6. Howrah Mills Co. Ltd.
7. Dunlop Rubber Co. (India) Ltd.
8. Hindusthan Motors Ltd.
9. Indian Aluminium Co. Ltd.
10. Indian Cable Co. Ltd.
11. Rohtas Industries Ltd.
12. Shree Gopal Paper Mills Ltd.
13. Birla Jute.
14. Guest, Keen, Williams.
15. J. K. Cotton.
16. Jaipur Udyog.
17. Kesoram Industries and Cotton.
18. Orissa Cement.

When the Stock Exchange was licensed under the Securities Contracts (Regulation) Act on October 10, 1957, there were only six such securities in the cleared securities list. But as the Government manifested a desire that more of them should be added to the list, more have been added since then. The selection of securities to be added does not depend on the mere will of the Committee. The conditions under which a security can be added to the cleared securities list are mentioned in the bye-law of the stock exchange. These conditions include that (a) there is adequate public interest in the company, (b) the company is of sufficient magnitude and public importance, and (c) the company has been incorporated for not less than three years or is a merger of companies of which the principal merging companies had been incorporated for not less than three years previous to the date of the merger.

Just as the committee of the stock exchange has the power of adding from time to time a security to the cleared list, similarly it has also the power of suspending or removing a security from the list.

It may be observed that Government Securities, shares of a bank and securities which are not fully paid-up cannot be added to the cleared list.

Need For Clearing

Securities which record a large volume of business in the market are generally chosen by the Committee for inclusion in

the cleared list. It is only the most active securities of the market which are cleared through the clearing house. Without this system, settlement of the vast volume of business daily taking place in these securities, particularly during periods of most active trading, would be difficult, if not impossible. The main object of effecting settlement of transactions through the clearing house is to offset transactions so that actual deliveries of shares and money may be reduced as far as possible. This becomes possible through the use of a "make-up" price for each security. The use of this depends on the ancient mathematical principle—"If equals are subtracted from equals the results are equal" and can be illustrated fully by one example.

"A" buys 100 Irons from "B" at Rs. 25/- per share. A price rise takes place and he sells them to "C" at Rs. 26/-. This rise is too quick, for by the end of the account the price comes back and the make-up price is fixed at Rs. 25.50. In "A's" books, therefore, "B" is credited with 100 shares at Rs. 25/-, that is to say, Rs. 2,500/-, and "C" has a debit of 100 shares at Rs. 26/-, that is to say, Rs. 2,600/-, leaving "A" with a balance of Rs. 100/- to collect on the settlement day. In order to get it, he uses the make-up price as follows: In "B's" account he writes a contra entry for 100 shares at the make-up price of Rs. 25.50, that is to say, Rs. 2,550/-, which leaves a balance of Rs. 50/- due to "A" from "B". In "C's" account he makes a similar contra entry, this time it is on the other side and he is once more left with a credit of Rs. 50/-. The net result is two credit balances together making up his Rs. 100/- profit on the two transactions.

At the same time "B" and "C" are making similar, but opposite entries in their books. In due course "B" will have to deliver to the clearing house his 100 shares to "C", and when he does so, "C" will pay him for them at the make-up price with the result that he will recover Rs. 100/- which he has credited to "A", the original buyer, as a contra entry and will be left with Rs. 100/- for which he has agreed to sell his shares.

"C" in a like manner is at the end of the day left with 100 Indian Irons which cost him Rs. 2,600/- or Rs. 26/- per share.

The Clearing system therefore enables the original seller to deliver the shares to the ultimate purchaser in the same stock exchange.

Settlement Procedure

Bargains in cleared securities are done on account basis. An account starts on Thursday and closes on the alternate Wednesday. The Exchange publishes from time to time a programme showing the date from which an account opens, the date on which it closes, and the dates on which the bargains are settled.

On whatever day of an account period a bargain is done in cleared securities, it is deemed to be a bargain for the current clearing.

If the bargain is not carried over to the next account, it remains open at the end of the account. It will be regarded as an outstanding bargain and shall be performed by delivery and payment on the days fixed for the purpose, at the make-up price fixed for the security.

The performance of all bargains in cleared securities is effected through the Exchange's Clearing House which on behalf of the Exchange is maintained by the head office of the Allahabad Bank Limited at 14, India Exchange Place, Calcutta.

The procedure for settlement of bargains through the Clearing House is facilitated by fixation of make-up prices. At the end of business hours on Wednesday on which an account closes the Exchange fixes make-up prices for all securities in the clearing list. The make-up prices become the basis on which all bargains done over the fortnight of the account period are settled.

The next few days over which transactions are settled through the Clearing House, are known as (1) Comparison Day, (2) Statement Day, (3) Clearing Day, and Settlement Day.

Comparison Day

On the comparison day each trading member will exchange with other members with whom he has done business, statements relating to all sales and purchases each has made over the fortnight of the account period. This they shall respectively show in "A" Form as prescribed by the Association. Separate "A" Forms are required for separate scrip. At the same time they will exchange with each other letters of instruction in "B" Form to receive and pay the net amount payable or receivable by them

from each other after the adjustment of all accounts through the Clearing House. In form "C" each trading member will also fill particulars relating to the net amounts receivable from and payable to all other trading members with whom he has done business over the account period. He will also enter in "DL" Form particulars relating to all unsettled bargains in each scrip (separate "DL" Forms are used for each scrip). The entries in the "DL" Form, must conform with the statements in "A" Form, and the net balance of each scrip to be actually received and/or delivered by him to the Clearing House, is carried over to the "E" Form.

Statement Day

Before 11 a.m. on the Statement Day each trading member will send to the Clearing House all "E", "C", "DL", and "B" Forms and the upper portions of "A" Forms received from other parties. If any trading member fails to file the papers by 11 a.m., he is permitted to file them up to 12 noon on payment of a late fee of Rs. 50.

Along with other papers each trader is also required to send to the Clearing House cheques—(a) one for the net amount payable by him as per "C" Form, and (b) another for the value of the shares receivable by him as per "E" Form.

By 3 p.m. on the same day each member is also required to send to the Clearing House delivery instructions on approved banks to deliver or receive shares.

Clearing Day

Trading members who have to deliver shares as per "E" Form must deliver them in marketable lots before 2 p.m. on the Clearing Day. If any member fails to do so, he is permitted to deliver the shares up to 3 p.m. on payment of a late fee of Rs. 5 per lot of 100 shares. Thereafter no shares are received by the Clearing House, and the trading member concerned is declared a defaulter. The shares delivered on the Clearing Day are entered in "D" Form and the member concerned is granted a receipt thereof from the Clearing House. Cheques for differences arising out of squared up transactions are also cashed on this day.

Settlement Day

On the Settlement Day the Clearing House will cash all cheques received from the respective members. It will also deliver shares to the banks as per advices contained in the delivery instruction received from them on the Statement Day, provided that all clearing accounts have been fully balanced and all sums receivable from members have been realized.

And Next Day

On the next day the Clearing House will pay to the respective members or their bankers the value of shares and also the amount receivable by them provided all clearing accounts have been realized. Any objection relating to the shares received from the Clearing House are to be lodged with the Exchange's Share Examination Sub-committee with usual share examination fee by 12-30 p.m. on the next working day following the day on which the shares are received.

Advantages Of Listing

The advantages derived by the management are many. Apart from the distinct advertising value it confers, listing enables the management to broaden and diversify the shareholding and provide the existing shareholders with a better market for the securities they own and hold. A company with a broad-based share ownership is better suited for the growth and stability than one with shares concentrated in a few hands.

By ensuring a broadening of the share ownership, listing not only brings a company's shares to the attention of new investors, but it also helps attract institutional investors. Hence it helps the company to gain national importance and widespread recognition.

Listing facilitates the widespread distribution of a company's securities. For a company it is a valuable advantage in connection with the financing of its capital structure. It may not be possible for a company with a large capital base to raise all the finance it wants if it does not seek listing on the stock exchange. There is such a difference between a listed and a non-listed security (particularly from the point of view of the psychological motiva-

tion of the investors in applying for subscription to shares) that Section 73 of the Companies Act provides that if it is stated in the prospectus that listing will be sought on the stock exchange and if such listing is not granted, the company shall return all the money to the applicants. This implies that it is the prospective listing which prompts the investors to apply for the shares. If it is not fulfilled, the investors have a claim to have a refund of the money. The underwriters would not take the risk of underwriting an issue, if it is not listed. They know that listing represents a strong point for selling securities.

Apart from the usefulness of listing in connection with the raising of initial finance, it is of value to a company for raising additional capital when required. Section 81 of the Companies Act provides that any fresh issue of shares, unless waived by them in a general meeting, must in the first instance be offered to the existing shareholders. In the case of a non-listed company, if this right of subscribing to the new shares be not exercised by the shareholders, the company concerned will be in great difficulty and may have to incur great expenses in selling them. But in the case of a listed company, the rights shares can be disposed of by the shareholders in the stock exchange. When a listed company makes an offer of new shares, the shareholders get a better estimation of the value of the shares from the price at which they are quoted on the stock market. Listing therefore is a great advantage to the management in ensuring a saving in the cost of raising new capital. The advantage is used by the management in connection with the acquisition of new business or assets, or mergers with other companies. Listing enables it to offer its securities in exchange for those of a closely-held or other unlisted company.

The shareholders and investors are benefited if the shares are listed. It gives liquidity to their holding. It helps them to obtain the best prices for the securities when they want to sell them. It helps them avoid the botheration of canvassing from door to door in order to sell the securities. A mere telephonic or verbal order to a stock-broker will help him to buy or sell a listed security. Transactions on the stock exchange are done by auction bids, hence there is no secrecy about the price at which he buys or sells the shares. The stock exchange quotations help keeping the investors informed about the price changes of securities. The inves-

tors get protection in respect of their holding, because the stock exchange rules and regulations have been carefully formulated. Listing gives an added collateral value to the securities held by investors, as banks in making loans and advances prefer a security quoted on the stock market. It helps them to avoid harassment at the time of the evaluation of the securities for the purpose of income tax.

Listing Requirements

That the investors get the maximum of protection by purchasing a listed security will be evident from the many requirements that a company is required to comply with both at the time of initial listing as also thereafter so long as its security is quoted on the stock exchange.

Initial Listing

The initial listing is usually granted on the basis of a listing application made by the company concerned. The listing application is required to be made in the prescribed form which may be obtained free from the stock exchange office on request. The application form contains such data as the name of the Company, date and place of incorporation, whether originally incorporated as a private or a public company, if incorporated as a private company the date of conversion into a public company, address of registered office, address of principal place of business, detailed description of authorised, subscribed and issued capital, details of shares issued for consideration other than cash, details of shares issued at a premium or discount, details of shares issued in pursuance of an option, details of forfeited shares, similar details relating to debentures, details of the initial issue of capital, further issue of capital both as rights and bonus, offers for sale of shares otherwise than by the company, record of dividends and cash bonus (if any for the last ten years, particulars of dividends or interest in arrears, if any, brief details of any reorganization, reconstruction, reduction or changes in the share capital since the incorporation of the Company, the statement of any other circumstances arising from the application which should be disclosed to the stock exchange, denominations in which share certificates are issued, details relating to transfer fees, and fees charged for

consolidation and sub-division of shares, the date of closing of the financial year, the month in which the dividend is usually paid and the month in which the general meeting is held.

Along with this application form the applying company is required to submit a return relating to the distribution of shares including the names and holding of the ten largest shareholders. It has to include with the application three copies of Memorandum and Articles of Association and Debenture Trust Deed ; copies of all Prospectuses, Statements in lieu of Prospectus, offers for the sale of shares during the last five years ; circulars offering securities for subscription or sale during the last five years ; advertisements offering securities for subscription or sale during the last five years ; the copy of every letter, balance sheet, valuation, contract, court order or other documents any part of which is reproduced or referred to in any Prospectus, offer for sale, circular or advertisement offering securities for subscription or sale during the last five years ; the certified copy of the letter of consent of the Controller of Capital Issues ; the certified copy of underwriting agreements, sub-underwriting agreements, brokerage agreements etc. ; the certified copy of Vendor's agreements, promoters' agreements ; certified copies of agreements with the managing agents, Secretaries and Treasurers of managing director, technical director, general manager, manager or secretary, selling agents and sales managers ; the statement containing particulars relating to the dates of and parties to all materials contracts, together with a short description of the terms, subject-matter and general nature of the documents ; three copies of directors' reports and balance sheets for the last five years ; copies of agreements with the financing bodies ; the short history of the company ; specimens of letter of allotment, letter of acceptance and letter of renunciation ; specimen of share certificates and debenture certificates.

Every applying company has to file a duly executed listing agreement form.

In order to be eligible for enlistment a company must have made prior to the grant of the enlistment a public offer of at least 49 per cent of its each category of shares by advertising it in newspapers and keeping the subscription list open for at least three days.

The company's Articles of Association must provide for the use of a common form of transfer, immunity of fully paid-up

shares from lien, no forfeiture of unclaimed dividends before the claim becomes barred by law, no right to dividend or participation in profits on amounts paid-up in advance of calls, and no option or right to call of shares to any person without the sanction of the company in a general meeting. The Stock Exchange Committee may further require the company to modify or exclude any Articles considered unreasonable or undesirable or restrictive to free dealings.

The requirement to make a public offer of 49 per cent of the shares prior to grant of the enlistment may be relaxed by the Central Government if the Stock Exchange Committee so recommends. But the Stock Exchange Committee can make such a recommendation if it is proved to its reasonable satisfaction that the shares are not unduly concentrated in a few hands.

In the case of a new company, dealings are not allowed until the shares have been finally allotted to the applicants, in conformity with the scheme of allotment approved by the Stock Exchange Committee, and the company's auditors certify to that effect. The company must also declare that all shares so allotted have been finally despatched to the applicants.

On being granted enlistment in the Calcutta stock market every listed company is required to pay an initial listing free of Rs. 1,000 and a continuing annual fee which varies from Rs. 250 to 2,000 according to the size of the company's capital.

Post-Enlistment Compliances

As long as the company's name continues in the Official List, a listed company is required to comply with certain requirements which are embodied in the listing agreement form of the stock exchange. These requirements govern the issue of letters of allotment and regrets, letters or rights, acceptances and renunciation; transfer, consolidation and sub-division of shares and fees to be charged by the company.

A listed company is required to notify to the stock exchange dates of the closure of its transfer books or when the books are not closed, the record date; the date of the board meeting in which declaration or recommendation of dividends is to be considered; all dividends recommended or declared immediately after the board meeting, together with the net profits of the company and particulars relating to the estimated tax liabilities.

and the amounts appropriated from reserves, profits, etc.; all particulars relating to the issue of rights or bonus shares immediately after the board meeting in which it is considered or decided; particulars relating to the grant of any option to purchase any shares of the company; any action which will result in the redemption, cancellation, retirement, or a drawing of any of its securities listed on the stock exchange.

The Exchange may further require a company to publish periodical interim statements of its working and may request the company to furnish such information as may reasonably be required.

Every listed company is also required to file with the stock exchange six copies of the statutory reports and directors' annual reports, balance sheets and profit and loss accounts and of all periodicals and special reports as soon as they are issued; six copies of all notices, resolutions and circulars relating to the new issue of capital prior to their despatch to the shareholders; three copies of all notices, call letters or any other circulars at the same time as they are sent to the shareholders or debentureholders or advertised in the Press; immediately after a general meeting a schedule showing the distribution of its securities and the names and holding of the ten largest shareholders.

The idea of regulating listing is that the investor who wants to buy listed securities is entitled to information about the company, which will help him to make intelligent decisions about his investment. Listing requirements have therefore been framed to ensure the democratic growth of the share ownership and protect the interests of the shareholders. The stock exchange authorities are keen about the fulfilment of the listing rules. Any company which refuses to comply with any of these requirements is frequently removed from the official list of the stock market. The stock exchange officials are ready to discuss informally with the management of companies on the eligibility of a particular issue for listing.

Calcutta Stock Exchange

Historical records show that transactions in Government securities and industrial shares took place in Calcutta as early as the end of the 18th century. In early days, activity of brokers centred around a *neem tree* in the vicinity of the present building of Messrs. James Finlay & Company, Ltd. Subsequently, the

site was shifted to near the Allahabad Bank building. Later brokers founded the "Calcutta Stock Exchange Association" in 1908 at No. 2, China Bazar Street, which is at present No. 2, India Exchange Place. Transactions were done on cash basis.

The "Calcutta Stock Exchange Association Ltd.", was registered as a limited company in 1923 with a share capital of Rs. 3,00,000 divided into three hundred shares of Rs. 1,000 each. Each share has recently been split up into four shares of Rs. 250 each. So there are now 1,200 shares, of which 1,116 have been issued. To become a member of the Stock Exchange it is necessary to own a share. The maximum membership of the Stock Exchange is therefore fixed at 1,200.

The constitution of the Calcutta Stock Exchange was changed on 10th October 1957. The share capital of Rs. 3 lakhs has been subdivided into 1,200 shares of Rs. 250 each. One share carries one vote and no single individual can have more than one vote. All members of the stock market have got to be individuals and no firm is recognised officially as a member of the stock exchange.

In order to qualify as a member of the Calcutta stock market it is necessary to own at least one share whose official value is Rs. 10,000 but its present market value is about Rs. 8,000. In order to become an active member of the stock market, every member has to deposit with the stock exchange a sum of Rs. 5,000 which is not refundable. An active member has also to deposit a sum of Rs. 20,000 which is refundable, but instead of a cash deposit a member is also entitled to deposit two shares of the stock exchange. It is relevant to point out that an original member of the stock market has been given four shares of Rs. 250 each in the place of his former holding of one share. There are also some inactive members who need not deposit any money nor is he permitted to transact any business on the floor of the stock exchange.

A member is authorised to have two assistants who are permitted to enter the stock market and transact business in the name of their members but they are not permitted to do any business in their own name. Each assistant has to deposit with the stock market a non-refundable sum of Rs. 500.

The Calcutta stock market is managed by an Executive Committee consisting of sixteen members who are elected from the general body of members. There are two nominated members

of the Government on the Executive Committee. The Executive Committee is in charge of administration of the exchange and operates generally through various sub-committees. An important innovation is that complaints from the public are entertained by the Executive Committee concerning the conduct of the members of the stock market. As the fees for lodging a complaint are prohibitive, the safeguard has become more academic in character.

Members

The members are of one kind. They can appoint authorised agents who cannot make contracts except on behalf of their principals. Agents are allowed to enter the exchange on paying a fee of Rs. 500. Every member and every agent must pay a monthly subscription of Rs. 4.

Rules and regulations are made by the Stock Exchange for maintaining a high degree of honesty among members. If a seller fails to deliver a security, the committee gives him seven days' time, failing which (after two days' notice) a buyer is given an option of either cancelling a contract, or of buying the security in the open market on the risk of the defaulting seller. If a member defaults to take delivery of a share, the committee allows him seven days, after which a seller may auction the share on the risk of the defaulter with the previous permission of the committee, and the defaulter pays the deficit, if any.

A member may be marked as a defaulter, if his dues are not paid. A defaulter's name is posted on the notice board, and he is not given the privilege of a member as long as he remains a defaulter.

Transactions

On the Calcutta Stock Exchange, transactions are made on cash basis, except for shares which are on the Clearing List in which adjustments are made fortnightly. Transactions are to be completed by delivery and cash payment on the second day, or on the day following a contract. Although forward and option dealings are not allowed, members transact them unofficially.

In spite of cash delivery, speculation is common, and fluctuations are wide. This is due to the fact that the cash delivery system is obeyed more in the breach, and members indulge in backdoor methods which encourage speculation and gambling. Persons are allowed to deal on the stock exchange by paying

price differences. A person buys a share, sells it on the third day and closes the transaction by paying the difference between the buying and selling prices. If prices move in his favour he receives the difference. It eliminates the need for delivery of shares for cash, and encourages speculation.

Members of the Calcutta Stock Exchange deal with members inside the exchange, and contracts are made between members. Members, dealing with the outside public, enter into separate contracts with the latter. If a member buys or sells a share on behalf of an outsider inside the market, the name of the outsider is not disclosed and inside the exchange members close a transaction among them by a contract. Later a member makes a separate contract with an outsider. So a member may charge from an outsider a price which is different from what is settled inside between members. An outsider has no means to verify at what price a transaction is made inside the house. It is not so on the London Stock Exchange, where a broker, acting on behalf of a principal, discloses the name of the latter to a jobber with whom a broker proposes to do business. It safeguards the interest of the public. A member of the stock exchange is not permitted to advertise for business.

SELECTED BY-LAWS OF THE CALCUTTA STOCK EXCHANGE ASSOCIATION, LIMITED.

Cash Delivery

Contracts made for cash transactions require delivery of shares on or after the second working day after the date of a contract. The above rule is not applicable to delivery of shares which are listed in the Clearing Schedule, and of Government securities and debentures.

Delayed Deliveries

The rule in respect of cash transactions shall be deemed as binding on both a buyer and a seller, and failure on the part of a seller to deliver must be reported to the Committee, which shall decide whether proper reason for non-delivery has been given, such as subdivision of scrip, non-receipt of scrip or up-country transfer deeds. The Committee, if it chooses, may, after two days' notice being given to a defaulting member by the Secretary, allow a buyer an option to buy shares in the open market on the risk of a seller.

Schedule of Brokerage

The brokerage has been fixed in the Calcutta Stock Exchange as given below:

| | | | | | | |
|--|------|---------------------|-----|-----|-----|---|
| (1) Securities of the Government of India and State Governments | | | | | Re. | .25 per cent on face value under Rs. 25,000/- |
| | | | | | " | .10 per cent on face value of Rs. 25,000 or over. |
| (2) Loans and Debentures of Port, Municipal Corporations, and similar other bodies ... | | | | | " | .25 per cent on face value. |
| (3) Debentures of Joint Stock Companies ... | | | | | " | .50 per cent on face value. |
| (4) Shares of Joint Stock Companies when the contract price per share..... | | | | | | |
| . does not exceed Rs. 2.50 | | | | | Re. | .05 per share |
| Exceeds Rs. | 2.50 | but does not exceed | Rs. | 5 | " | .10 " " |
| " | 5 | " | " | 10 | " | .15 " " |
| " | 10 | " | " | 25 | " | .25 " " |
| " | 25 | " | " | 50 | " | .50 " " |
| " | 50 | " | " | 75 | " | .75 " " |
| " | 75 | " | " | 100 | " | 1.00 " " |
| " | 100 | | | | " | 1.00 for every Rs. 100 (or part thereof) of the contract price per share. |

All with a minimum charge of Rs. 5.00.

Auction Sales

An application for permission to hold an auction sale is made to the Stock Exchange Committee, which appoints a member of the Stock Exchange Association to decide as to whether the proposed auction is a *bona fide* sale against a defaulter. For arriving at a decision on the point, the member who is nominated may require such reasonable proof, documentary or otherwise as he thinks necessary. If the nominated member is satisfied that the auction is a *bona fide* sale against a defaulter, it shall be allowed.

No notice or advertisement of an auction sale is given unless it is authorised to be exhibited in the rooms of the Stock Exchange Association.

Interest on Government and other Interest-Bearing Securities

If delivery on receipt of a scrip is arranged a seller is entitled to get interest for 14 days on Government securities and for 21 days on other interest-bearing securities from and including the day of a contract. If a date is inserted in a contract, a seller is entitled to get interest up to and including the day before the due date.

Cages on Share Certificates

Members may not refuse to take delivery of shares on the ground that there is no vacant cage in a scrip.

Deliveries of Government Securities

1. A member may refuse to take delivery of Government securities if there are less than two unused gates or cages.

2. Delivery of Government securities may be refused by a buyer if interest accumulates for 8 calendar months or more.

3. Buyers can demand sellers' endorsement on all notes.

4. If a contract is made for the sale or purchase of Government securities in which delivery is to be made on receipt of a scrip, a seller may deliver within 14 days after the date of the transaction. In the event of a default, a seller loses his right of claiming interest from a buyer for over 14 days.

5. If the 14 days' grace ends on a Stock Exchange holiday or on a non-delivery day, delivery may be made on the previous working day.

6. Sale stamps are not required in the case of endorsement by a clearing bank.

Deliveries and Payment of Government Securities

1. Interest-bearing securities are delivered up to 11-30 A.M. and a buyer pays a cheque by 12 noon.

2. If interest-bearing securities are delivered after 11-30 A.M. and up to 2 P.M., a buyer accepts and pays after banking hours.

3. If a delivery of an interest-bearing security is made under a "ready" contract on the due date, or under a "receipt of scrip" contract before the last date of the option, a seller is not entitled to the day's interest, if he delivers either before or after 11-30 A.M.

4. If delivery of an interest-bearing security is made under a "receipt of scrip" contract before the last date of the option, a

seller is entitled to the interest for the days if he delivers the paper after 11-30 A.M. For "ready" transactions in Government Securities delivery may be given by a seller on the due date up to 2 P.M. after charging the day's interest.

Interest on Payment on Government Security

In the event of failure to pay for Government Securities before banking hours, a buyer pays interest at the Bank Rate with a minimum of 6 per cent. on the amount of the bill.

Renewal Fees

Renewal fees are paid, if there are less than two endorsement cages or interest cages are left.

A buyer is not bound to accept Government securities which are due for renewal, if fees are paid by a seller.

Stops on Government Securities

In the case of Government securities or interest-bearing securities in which a "stop" has been given either by the Public Debt Office or by the company concerned, a buyer may return the security to a seller who either replaces it or refunds the price with interest. In the latter case, a buyer may recover from a seller any loss which he incurs in replacing the security.

Re : Endorsement on Government Papers

In respect of Government securities, members of the Stock Exchange Association are to take precautions for ensuring that the previous endorser is a party of standing or he is one known to them. In other cases, if there is any doubt, the scrip is renewed before they accept it for sale. In the case of transactions with a renewed scrip, members take the precaution of ensuring that the seller is the party in whose favour the note is renewed.

Regarding Lots in Share Transactions

In the case of share transactions where no mention is made at the time of the transaction about lots, the latter are considered as follows:—

| | |
|--------------------|------------|
| Rs. 500-0 paid up- | 5 shares. |
| Rs. 100-0 paid up- | 25 shares. |
| Rs. 50-0 paid up- | 50 shares. |

| | | |
|----------|----------|-------------|
| Rs. 25-0 | paid up- | 100 shares. |
| Rs. 10-0 | paid up- | 100 shares. |
| Rs. 5-0 | paid up- | 100 shares. |
| Rs. 2-8 | paid up- | 100 shares. |

For Rs. 100 shares, in which Rs. 50 are paid-up, deliveries are made in lots of 25 shares.

| | | |
|-----------|----------|-------------|
| Rs. 375-0 | paid up- | 25 shares. |
| Rs. 300-0 | paid up- | 25 shares. |
| Re. 1-0 | paid up- | 100 shares. |
| £ 10 | paid up- | 25 shares. |
| £ 5 | paid up- | 25 shares. |
| £ 1 | paid up- | 100 shares. |
| Sh. 8 | paid up- | 100 shares. |

In rubber shares of \$ paid up, delivery is made in lots of 500 shares.

Regarding Lots in Government Securities

Except for special arrangements deliveries of Government securities are made in lots of not more than Rs. 25,000 each.

Lots for debentures amount to the same sum of Rs. 25,000 as in the case of Government securities, unless they are otherwise provided by a contract.

BOMBAY STOCK EXCHANGE

The Native Share and Stock Brokers' Association popularly called the Bombay Stock Market was formed by constitution of 37 articles embodied in a Deed of Association. It is managed by a Governing Body consisting of 16 members elected by the members of the stock market and two members nominated by the Government.

The total number of members in the Bombay stock market is 504 and it can be raised according to the discretion of the authorities. The members are allowed to take assistants who are called clerks and remisiers. Each member is required to deposit a sum of Rs. 20,000 before transacting business.

Transactions

In the Bombay Stock Exchange transactions are made either for forward or ready delivery. The Bombay stock market has a clearing system, in which transactions are settled every fortnight, and many shares are listed for clearing. Transactions are made on a forward basis through clearing. In the case of a transaction, which is done for ready delivery, a contract is completed by payment at a date not later than the seventh day from the date of a contract. Contracts for non-clearing securities which are made on a business day during a week are settled on every Thursday the following week, unless otherwise ordered by the authorities. The President of the Stock Exchange reserves the right of extending the time of a ready delivery contract by fifteen days.

There is an *Arbitration Committee*, composed of sixteen members, who settle disputes among members of the stock exchange.

There is also a *Defaulters' Committee*, consisting of six members, who look after a defaulting member. If a member defaults to meet his obligations, he is allowed six months' time for settling his debts. If he fails to do so, his membership card is forfeited by the Managing Committee, and it is sold by auction. Proceeds of the sale of a card are utilised for clearing debts of a defaulter.

Stock Exchange Clearing House

The Stock Exchange Clearing House helps settle transactions among members by accepting and delivering securities and arranging to clear differences. Though it passes documents between buying and selling members, it is not responsible for the genuineness of documents. Members are entitled to use the Clearing House for closing transactions. In the case of forward transactions, particularly in securities which are specified by the Board of Control from time to time, members use the Clearing House for closing transactions. Dealings for forward delivery are made for each clearing in which settlements are made every fortnight. Carry-over from one clearing settlement to another is permitted on mutual understanding of the parties by paying charges which are called "Badla". The clearing is administered

by the Bank of India Ltd. under rules and regulations which are made by the stock exchange.

Principal Extracts from the Rules of the Bombay Stock Exchange

Bargains for Current Settlement.

Unless it is otherwise specified, all bargains made in stocks, shares and other securities admitted to forward dealings, shall be deemed to have been made for the current Settlement.

No bargain made for the Settlement in stocks, shares and securities not admitted to forward dealings will be recognised and all such bargains shall be deemed void.

In the case of Badla transactions, a seller shall not be entitled to claim identical securities and such transactions may be put through between two non-members.

If securities are delivered, a party delivering securities shall have the right to require the purchase money to be paid in cash against delivery on the due date in accordance with rules, provided that if delivery is made through the Clearing House payment shall be made in accordance with the rules relating to the Clearing House.

In all transactions in debentures a seller is entitled to interest till the date of payment. If a seller fails to deliver debentures within seven days from the date of sale interest shall cease.

Transactions in shares shall be ex-dividend from the day on which interest or dividend is payable. They shall be ex-rights from the latest day fixed for the receipt of applications for rights by a company but transactions before that day shall be cum-dividend and cum-rights, provided that shares admitted to dealings for settlements shall be quoted cum-rights to the day fixed by the authorities but thereafter transaction shall be made ex-rights. The Board of Management may, in any particular case or cases, declare that transactions shall be ex-dividend or ex-rights at any other time.

Members shall not be personally liable among themselves for interest, dividends, bonus or rights on shares sold by them if the shares are delivered by a selling member or the Clearing House to a buyer not less than six clear days (including holidays) before the last working day immediately preceding the closing of

the books of a company to enable a buyer to get the shares transferred to his name. Nothing in this rule shall affect the rights and objections of buyers and sellers among themselves as constituents or principals, for the recovery of such interest, dividends, bonus or rights.

A buyer is entitled to new shares issued for rights of old shares, provided that he specially claims the same in writing from a seller not later than 1 P.M. on the second day preceding the latest day fixed for the receipt of applications by a company.

Notwithstanding the provisions of the above clause, a seller, if he is in possession of new securities shall be responsible to a buyer for the same, if claimed by him before one o'clock on the day following the latest day fixed for the receipt of applications by a company and should he not be in possession of new securities, he is bound to render every assistance to a buyer in tracing them.

Rights are to be settled by letters of renunciation when practicable. When proper letters of renunciation are delivered or tendered to a buyer before 2 P.M. on the day preceding the latest day fixed for the receipt of applications, a seller shall be relieved of further liability in respect of all such rights. A member shall not be found to accept letters of renunciation not tendered within the time provided in this rule.

If securities are sold cum-rights and are delivered after the closing of transfer books for rights and if a new security cannot be obtained by letters of renunciation the Board shall fix a price which may be deducted by a buyer from the purchase money of old securities. A buyer shall pay this price, namely, the balance due on a contract when a seller delivers new securities at any time on or before the day fixed by the Board for the settlement of rights.

A member who receives payment against delivery of all necessary documents either on his own account or on behalf of his constituent shall be personally responsible to a member to whom the same are delivered for their title, regularity and genuineness, provided the documents are lodged with a company for registration by or on behalf of a purchaser or any subsequent purchaser either within 21 days of such delivery by a seller or by the Clearing House to a purchaser or if during that period the transfer books of the company are closed on the first day of

which the books open thereafter for registration of shares. If documents are not so lodged then except in the case of fraud or bad faith on the part of a selling member the liability of a selling member to both a buying member and his constituent as also the liability of a buying member to his constituent shall cease in all respects.

Nothing in this rule shall affect the liability of a constituent (which term shall in cases where a member has dealt on his account include such member) from whom a member may have received the document in any action at law or in any other proceedings. A member who delivers the document shall however be bound to render every assistance to a buyer in any proceeding he may take against a seller.

If a member to whom the documents are delivered gives intimation in writing to a member who delivers them, of his objection as to their title, regularity or genuineness as soon as it comes to his knowledge, a member who delivers them shall within a week from the date of such intimation remove any irregularity or establish the title or genuineness of the documents as the case may be, or deliver other regular, genuine and valid documents, provided that the documents are lodged for registration as provided by rules of the Stock Exchange. In the event of such a member failing to deliver such other documents, he shall refund on return of the documents the money paid against such documents.

A refund of the price on the return of documents shall not operate as cancellation of a contract and if a selling member within a period of 21 days from the refund tenders to a buying member regular, genuine and valid documents, a buying member shall be bound to accept such documents in fulfilment of an original contract and pay the purchase price.

Save as is provided in rules of the Stock Exchange a sale of shares is not conditional on a company transferring the shares in the name of a buyer. The only obligation of a seller for the sale of shares is to tender delivery of the necessary certificates with a properly executed transfer. Such a seller shall not be deemed to guarantee that a company will transfer the shares in the name of a buyer and shall incur no liability by reason of the refusal of a company in exercise of the power vested in it under the Articles of Association to transfer such shares.

A bargain for ready delivery shall be for delivery and payment will be made before 3 p.m. on the business day next following the bargain. If such day is Saturday, delivery and payment shall be made on the business day next following. A bargain for ready delivery shall not be deemed invalid if delivery and payment for the stock is made not later than 7 days from the date of a contract.

If a selling member fails to deliver a scrip before 3 p.m. on the day of the issue of the pay order, a buyer shall be entitled to buying-in after giving one business day's notice in accordance with the rules for buying-in.

The Board shall, in December of each year, fix 24 account days or pay days. Such pay days shall be on days other than pay days fixed for the ordinary monthly settlement in other securities.

Deliveries and payments for all transactions for forward delivery shall be made on each account day or pay day as fixed by the Board under the rule.

The Board shall fix a date from which a bargain for the ensuing account may be made. Such a date shall not be earlier than three working days previous to the Ticket Day for the current settlement.

Pay orders shall be issued on Account Day for the purpose of settlement at making-up price as fixed by the President or the Secretary of the Association. Such a price shall be the closing price of the day immediately preceding the Ticket Day.

A buyer is entitled to claim the renewal fees if there are less than three black cages for endorsement on the back of the note, or if there are six or less than six half-yearly interest columns blank, or if there are more than two enfacements for the payment of interest.

A buyer may refuse to accept the notes and pay for them if there is a cross endorsement, or if interest is left undrawn for more than one year, or if notes tendered are of lesser denomination than Rs. 500, or if interest payable on or after the Pay Day is drawn by a seller.

A buyer may refuse to pay for securities unless all endorsements on the back of the note are valid, regular and are in proper form but he shall pay for such portion of securities as

may be in order. Securities thus returned unpaid must not be brought in until seven days have been allowed to a seller to put the securities in order. A buyer is not liable to pay the accrued interest beyond the due date for the delivery of securities returned. If a seller fails to deliver securities within the said period of seven days, a purchaser shall, after giving one business days' notice, be entitled to buying the same within two days thereafter.

The market will remain open for business on such days and during such hours as may be fixed by the Board from time to time and no bargains shall be made before or after the hours of business so prescribed.

The Board may from time to time specify the securities which shall be settled either by the system of clearance sheets or by the process of Tickets. All bargains in such cleared securities shall be deemed to be for fifteen days' clearing and the settlement and clearing of such bargains shall be effected as provided.

The Board shall fix in advance the first and the last working days for each fortnightly Clearing and the various Clearing days. All contracts for any Cleared security or securities entered into during a Clearing which are outstanding on the last business day shall be performed by the actual delivery of or payment for the securities specified therein unless carried over to the next Clearing. Such carry-over shall be at delivery rates unless otherwise expressly stipulated at the time of a contract. Except carry-over and unless ordered otherwise by the Board, no bargains made for a period beyond the current Clearing will be recognised and all such bargains shall be deemed void.

Provided that the parties may expressly stipulate at the time of a contract to make delivery and payment on any day other than the day specified in the rule but not later than the seventh day from the date of a contract and in such cases delivery and payment shall be made ex-Clearing House.

The President of the Stock Exchange or in his absence the Secretary, shall fix on the last working day for each Clearing delivery rates for Cleared securities to be settled by the system of Clearance sheets. All accounts shall be temporarily adjusted and payment shall be made or received at such delivery rates.

Seller's Clearance Tickets for securities to be settled by the process of Tickets must be passed in the Settling Room not later than 1 p.m. on the Ticket Day.

Save as provided in the rules of the Stock Exchange all contracts for non-cleared securities entered into on a business day during a week shall be settled on every Thursday the following week unless otherwise ordered by the Board. A seller shall deliver such securities in lots of trading units together with necessary transfer forms to a buyer before 2 p.m. on Thursday and a buyer shall pay for them before 5 p.m. on that day.

If securities are not so delivered a buyer shall have the right to buy the same in accordance with the provisions of the rules relating to buying.

If a buyer fails to take up and pay for securities so delivered a seller shall have the right to sell the same in accordance with the provisions of the rules relating to selling.

A member in default shall be liable for any damage which may arise from buying or selling.

The President shall have powers to extend in any particular case the time for the performance of a ready delivery contract by fifteen days.

Members may render contract notes to non-members in one of the forms prescribed as the case may be in respect of every bargain made for such non-member's account and may charge commission.

Comparative Study : London, Calcutta, Bombay

Prices of securities on the London Stock Exchange are steady and wide fluctuations are infrequent. The rules of cash dealings or of fortnightly settlement, combined with the existence of jobbers who quote a "double-barrelled" price, help curb speculation. In spite of the cash dealing system, speculation in the Calcutta Stock Exchange is greater as the cash rule is not observed. By allowing persons to deal under the price difference system, fatka transactions are encouraged. The Bombay Stock Exchange encourages speculation because of a fortnightly system coupled with forward transactions. Speculation may be regulated to a considerable extent by introducing the practices of the London Stock Exchange. Cash transactions should be obligatory and all transactions should be closed by deliveries and cash payments.

In respect of membership, the London Stock Exchange is democratic as it makes authorised clerks members on easier terms. So merit, efficiency and experience are rewarded.

The investor's interest is safeguarded in the London Stock Exchange. If a jobber gives a contract to a broker, mention is made of the buyer or the seller. So one knows the price at which his transaction is made inside the house between a broker and a jobber. In Calcutta and Bombay it is not so. Inside the house a contract is made between brokers, and no mention is made of the buyer or the seller, on whose behalf brokers transact. Later a broker gives a separate contract to an outsider and the latter has to accept whatever price is given by a broker, as an outsider has no means of knowing the price at which the transaction is made inside the house.

OTHER STOCK EXCHANGES

The Madras Stock Exchange Association Limited is managed by a Council of Management consisting of 8 members out of which two are nominated by the Government. The membership of the stock market is at present 35. The Council of Management has provided for membership to rise to 200 and has the discretion to raise it further if necessary.

In the Ahmedabad stock market every active member has to deposit Rs. 5,000, in the Hyderabad stock market Rs. 3,000, in the Delhi stock market Rs. 3,500 and in the Indore stock market Rs. 3,000.

Madras Stock Exchange

The Madras Stock Exchange was formed in April 1920, with 100 members who worked under rules, made by a board of directors. The Exchange was closed later. In August, 1937, another stock exchange under the style of the "Madras Stock Exchange Association Ltd." was established. It is limited by guarantee.

To become a member, one has to pay an admission fee of Rs. 5,000. Any member who wants to transact on the Exchange must deposit with the Association an amount of Rs. 5,000 and pay a subscription of Rs. 15 a month. A member may authorise

two assistants for doing business in the Exchange on his behalf. A partnership or a firm may employ four assistants. An assistant must wear a badge, and he is liable to expulsion and suspension if he transfers his badge to any other person. An assistant cannot do business on his own account. No member of the Stock Exchange is allowed to do business with a member of any other Association in Madras. A member cannot do business with a non-member without charging regular brokerage. Employees of the Exchange cannot do business with its members.

Business is transacted either for cash or forward. In the Madras Stock Exchange there are "Immediate", "Ready", "Cash" or "P.A.D." contracts. In the case of ready contracts, a seller delivers documents to a buyer on the third day from the date of a contract. Cash contracts stipulate that the delivery of documents must be given within seven days from the date of a contract. In the case of "P.A.D." contracts the documents are delivered within fourteen days from the date of a contract. In immediate delivery, documents are delivered on the next working day after the date of a contract. No option business is allowed. Unless otherwise specified, transactions admitted to forward dealings are deemed to have been made for the current settlement. Any bargain made for a period beyond the current and ensuing settlements is not recognised and is considered void. The Council of Management fixes every month a date from which transactions for the coming settlement may be made. In all ready delivery contracts the necessary transfer forms duly signed by a transferor and witnesses, are delivered within the seventh day from the day of sale, failing which securities may be bought by a buyer in the open market at a seller's risk.

Any dispute among members is settled by arbitration which is arranged by the Council of Management, which is the executive authority of the Stock Exchange.

Stock Exchange List

Generally, every stock exchange publishes a list of approved securities dealt in in the house, and gives quotation of their prices from day to day. Before any stock or share can be dealt in in a stock exchange, it has to satisfy certain conditions, laid down by the rules and regulations of a stock exchange, which

aims at seeing that such securities may reasonably be good for investment. It thus provides some safeguards for the investing public.

Speculation on Stock Exchange

In a stock exchange investment and speculative business is done. There are dealers who buy or sell not for investment but they transact with a view to making speculative gains. A speculator buys or sells a share not to take or give delivery. He closes his business by making a counter-transaction. He tries to make profits by the difference between buying and selling prices, or *vice versa*.

If a speculator buys shares not with the object of taking delivery but to sell them again in the expectation of a rise in prices, he is called a *bull*. Similarly, a *bear* is a speculator who sells shares, anticipating a fall in the price. A *bear* may sell shares which he does not possess but he hopes to buy them later at lower prices. A *stag* denotes a speculator who applies for new shares, anticipating that they can be sold later at a premium. He tries to sell them at higher prices before any call on the shares is made.

Option Dealings

An option denotes a speculative transaction in which a person pays so much per cent. or so much per share for an option to buy or sell a certain amount of stocks or shares within a certain period. An option to buy is called a "Call Option". An option to sell is called a "Put Option". A double option to buy or to sell is called a "Put and Call Option". In a put option, a purchaser of the option obtains a right to oblige a seller of an option to buy a certain number of shares at a fixed price on a future date. A call option confers a right upon a buyer to oblige a seller of an option to sell to the buyer a certain amount of shares at a fixed price on a future date. A double option is a combination of the two options. A buyer gets the right of obliging a seller either to buy from, or sell to him a certain amount of shares at an agreed price on a future date. A double option is a speculative transaction. Option dealings help limit risks to a maximum amount which is equivalent to the purchase

money of an option. The price of an option is fixed at a rate per cent. of the price at which the security is to be delivered. The prices of double options are twice as much as the prices of single options.

A "Call of More" means that a buyer of a fixed amount has an option of buying twice the quantity, if he wants to do so. A "Put of More" entitles a seller of a fixed amount to sell double the quantity, if he finds it advantageous to do so.

A buyer of an option is entitled to dividends or bonus which is declared during the period of the option.

A bull may raise the value of a stock artificially by buying, and the process is called "rigging the market". It is the same as "cornering the market". A corner takes place, if influential dealers, having a large number of shares, begin to buy shares in such a way that their buying exceeds the amount of shares which are available. In such an event sellers are obliged to buy from the cornerer shares at higher prices for covering their sales.

Influences on Stock Exchange Prices

Prices on a stock exchange are governed by the supply and demand for securities and shares. There are persons who buy securities and shares for investment, and there are others who buy for selling at a profit. Although speculators can influence prices for the time being, prices are fixed on a long view by economic considerations.

Conditions of trade and industry influence prices of securities and shares to a considerable extent. An investor buys a share for earning a return. If he earns higher returns elsewhere, he diverts his resources from shares to other investments. If there is an industrial boom, investments in industry and trade give good remuneration which may be higher than yields from securities and shares. Investors, therefore, begin to withdraw their savings from shares and put them in industry and commerce. So the demand for securities and shares declines and their prices fall. During a period of industrial boom, there is good demand for capital from industries, so the value of money moves up. Interest charged on borrowed capital rises. As speculators transact business with borrowed capital they find it no longer remunerative to deal in securities by borrowing money at high rates

of interest. This diminishes the demand for securities and shares, so prices decline.

If there is a depression industries make losses, so business men divert their resources from industries to Government securities for earning higher interest. The demand for Government securities moves up.

War may influence prices on stock exchanges. During a war Government floats loans, giving high rates of interest. So investors shift their investments to Government loans. Persons may even prefer to contributing to Government loans for helping the country. Money becomes dearer, and industries may obtain it at higher costs. There is more taxation in a country, resulting in a reduced demand for shares. There is less international trade, so people have smaller savings to invest in shares. Industry and trade suffer, and incomes of people decline. Prices of shares are, therefore, depressed during a war. There may be some exceptional cases, e.g., war industries, which are engaged in producing war materials. The prices of shares in those industries may rise.

The stock markets publish lists of the transactions made on the floor of the exchanges every day. When a quotation is affixed with any word, it has a special significance.

Quotations

's. lots' denotes small lots. There is a unit in shares which is dealt in on a Stock Exchange, e.g., Howrah (Jute Mill) shares are dealt in a lot of 100 shares but if any lot smaller than the prescribed unit is transacted, it is called small lots as indicated by s lot, s. lots or lots. Government securities are dealt in a lot which is valued at Rs. 25,000. Any amount less than this is called s. lots. Small lots are multiples of the prescribed unit which is dealt in. For example, 20, 25, 50 shares of Howrah (each share=10 rupees) are small lots as they are multiples of 100. If any small lot other than such a multiple is dealt in, it is called odd lot or odd, e.g., 9, 15, 23 shares of Howrah are odd lots.

'Ex. div.' means that a share does not entitle a buyer to any dividend which is declared but is not paid then.

'C. div.' or 'Cum div.' means that a share entitles a buyer to any dividend which is declared but not paid then.

'C. T.' means 'cross transaction'. If a broker gets an offer from a client to sell shares or stocks, and a simultaneous offer from another person is given to buy the same shares, the broker passes the shares from the seller to the buyer without placing the transaction in the open market. Such a transaction is called a cross transaction.

"Opening" means a price at which a security is first sold and bought. "Closing" is opposite to "opening" and denotes a price at which a security is transacted last.

Shares issued by companies may confer on the holders a right to take up new shares within a certain period at a fixed price. If the value of the latter rises above the price at which they are offered, the right becomes valuable. The former shares may be sold either with the right if the price is quoted "cum rights", or they may be sold "ex-rights", that is they are sold without rights. If shares are sold "ex-all" a purchaser obtains no rights other than those attaching to shares themselves.

The Teji-Mandi rate denotes a price at which option dealings are transacted.

Questions

1. Give a brief sketch of the constitution and administrative set-up of the Calcutta Stock Exchange. (B. Com., Cal., 1962).
2. Explain clearly in general terms, how business on a Stock is usually carried on. (B. Com., Cal., 1960).
3. Distinguish between a Stock Exchange and a Produce Exchange. What is meant by 'dealing in future'? (B. Com., Madras, 1959).
4. What are Stocks and Shares? What are the functions of a Stock Exchange or Share Market? (B. Com., Cal., 1959).
5. Give a short account of the activities and methods of work in a Stock Exchange. (B. Com., Cal., 1952).
6. Mention and explain some of the factors that rule the fluctuations in prices in a Stock Exchange. (B. Com., All., 1961).
7. Discuss the arrangements for delivery of Government securities in the Calcutta Stock Exchange. (B. Com., Cal., 1959).
8. How would you connect the trade condition of a country with prices on Stock Exchange? (M.A., Com., Cal., 1946).
9. Give a short account of the constitution, method of election and functions of the committee of management in the Calcutta Stock Exchange. (M.A., Com., Cal., 1960).
10. Describe the principal features of the Calcutta Stock Exchange. (M.A., Com., Cal., 1946).

11. Describe the nature of working of the London Stock Exchange and compare it with the Bombay Stock Exchange. (M.A., Com., Cal., 1952).
12. Explain cum-dividend, option, carrying over, jobbers, bears, bulls, contango, settlement day.
(B. Com., Lucknow, 1959; B. Com., Bombay, 1960).
13. How do the leading stock exchanges of the world deal with the evil of speculation and how far do they succeed in checking it?
(B. Com., Bombay, 1959).
14. Discuss the services rendered by the stock exchange clearing house.
(B. Com., Lucknow, 1948).
15. Compare the organisation of the London, New York and Bombay Stock Exchanges.
(B. Com., Bombay, 1956).
16. Define contango, ticket day, carrying over and tape price as used in the Stock Exchange.
(B. Com., Bombay, 1959).
17. Explain the nature of jobber's business on the London Stock Exchange.
(B. Com., Bombay, 1946).
18. What is the difference between jobbers and brokers?
(B. Com., Bombay, 1961).
19. Describe the importance of Stock Exchange List in commercial transactions. Enumerate and explain the different column headings used in the list.
(M.A., Com., Cal., 1948).
20. Explain the close relationship that exists between Banks and Stock Exchanges.
(M.A., Com., Cal., 1961).
21. Write a short note on the working and constitution of the Stock Exchanges at London, Calcutta or Bombay.
(B. Com., Cal., 1956).
22. Offer suggestions of reforms in the working of Indian stock exchanges in order to eliminate gambling and corrupt practices.
(M.A., Cal., 1951).
23. What is the official list of a stock exchange? What is the purpose of listing regulations? What is option business? (B. Com., Bombay, 1946).
24. A person wishes to buy five ordinary shares of the Tata Iron & Steel Co., Ltd. Trace in detail the course of events that will make him the owner of these shares.
(B. Com., Bombay, 1944).
25. Describe the organisation of the Calcutta Stock Exchange and compare it with that of London, bringing out the merits and defects of each in the course of your discussion.
(B. Com., Cal., 1930).
26. What do you understand by the Bull and Bear as used on the Stock Exchange? Explain "Double Option" and "Option to Double".
(B. Com., Lucknow, 1955).
27. Explain the following terms:— (a) Contango, (b) Options, (c) Hammer price, (d) Stag, as used on Stock Exchanges. (B. Com., Bombay, 1959).
28. What weaknesses and abuses of the existing constitution of, and price in the Bombay Share Bazar have been brought to light of late years? Suggest remedies with special reference to corners.
(B. Com., Bombay, 1957).
29. How far is it desirable to base the organisation of an Indian stock exchange upon principles adopted in similar institutions in Europe and

America, particularly in connection with division of work between members and powers of Board to check speculation.

(B. Com., Bombay, 1962).

30. Classify the various types of investors and show how stock exchanges arrange to meet the requirements of each. (B. Com., Bombay, 1946).
 31. What is a Stock Exchange? How is business transacted there? Distinguish between a Broker and a Jobber. Is any such distinction observed on the Calcutta Stock Exchange? (B. Com., Cal., 1943).
 32. Write short notes on any four of the following:—(a) Stock Exchange, (b) Multiple Shop, (c) Hire-Purchase Agreement, (d) Bonded Warehouse, (e) Labour Union, (f) Letter of Credit. (B. Com., Cal., 1949).
 33. Describe the functions of Stock Exchanges. Along what lines would you like the Indian Exchanges to be reformed? (B. Com., Cal., 1950).
 34. Examine the principal reasons for fluctuations in the prices of shares and securities on the Stock Exchange. (B. Com., Cal., 1951).
 35. Mention the different classes of shares and securities transacted at the Calcutta Stock Exchange.
 36. "With selective inquiry for jute shares at lower levels the Calcutta Stock Exchange ended the week's trading on a steady note, though price movements were narrow and the turnover restricted." Explain. (B. Com., Cal., 1952).
 37. Do you consider that the Stock Exchange performs a necessary function in the organisation of modern business? What criticism or defence would you make of the Stock Exchange speculator? (B. Com., Cal., 1953).
 38. Describe the organisation of either the Calcutta Stock Exchange or the London Stock Exchange. (B. Com., Cal., 1955).
 39. Distinguish between a Stock Exchange and a Produce Exchange. What is meant by 'dealing in Future'? (B. Com., Cal., 1957).
 40. "Stock exchanges can do both good and harm to industries". (B. Com., Cal., 1959).
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CHAPTER XXVI

INVESTMENT TRUSTS

Definition

An investment trust company obtains money by selling its stocks, and invests the money in selected securities. The investment trusts help an investor secure a steady and safe return on money by entrusting it with expert investment managers. They invest their money in marketable and safe stocks and shares, and reduce risks to a minimum. The investment trust movement originated in England during the eighties of the last century, and it forms an important part of the economy. The management of investment trusts is given to experts, as investment needs changes according to market trends. Profits made by buying and selling of securities are utilised for building reserves, while dividends and interest earned by the trusts are distributed to their proprietors or shareholders.

Fixed Trust

As the trusts find difficulty in selecting securities for spreading risks, there grew up another type of trusts, called *Fixed Trusts*. Originally started in America, they spread to England and elsewhere. A fixed trust selects a fixed portfolio of investments, and does not invest in other securities. Although stability is assured, it cannot change investments, according to market ideas. The management is obliged to invest in fixed shares and stocks. Fixed trusts provide investors with an opportunity of investing the money in many securities as they can buy small holdings of fixed trusts. The latter sub-divide their capital into small units and sell them to persons with limited resources. Fixed trusts may be given ten to twenty years' life, and a bank or an insurance company is appointed as a trustee of a fixed trust. Shares of a fixed trust are, therefore, held in safe custody by a trustee, which is either a bank or a similar institution.

The trust movement is in infancy in India. Notable examples are the Industrial Investment Trust Ltd., the Eastern Investments

Ltd., the Birds Investments Ltd., and the Clive Row Investments Co. Ltd. There is no example of a fixed trust in India.

Fixed trusts do not permit flexibility by giving the managers discretionary powers to change the portfolio of investments.

Insurance Share Trust

A trust of insurance shares has been formed by a Trust Deed in England for investing in stocks and shares of thirty-one British insurance companies. The life of the trust is fixed for twenty years, and investments are made for the benefit of holders of the "Insurance Unit Certificates". The certificates can be bought in multiples of ten. The trust cannot invest over 10 per cent. of its money in one company, and the investment in a company cannot exceed 5 per cent. of the issued share capital of a company.

"The Bank and Insurance Share Trust" has been formed in England with the object of investing money in stocks and shares of forty-two insurance and banking companies of England, Canada, Australia, New Zealand, India and South Africa.

Finance Companies

Finance companies may function as investment trusts. They obtain money either by selling shares or by raising loans in order to finance industries, although they invest a portion of their money in stocks and shares. Finance companies concentrate on financing one industry. For example, it may finance mining companies, cotton mills, jute mills or any other industry. If the industry suffers it is also affected. If investment is distributed, risks are reduced. Finance companies are, therefore, more speculative than investment trusts. Finance companies commonly obtain money by floating debentures, carrying a fixed rate of interest.

Unit Trust

Unit trusts invest money in a portion of selected stocks and shares. By buying the share of a unit trust an investor, specially one having meagre resources, can spread the risks and diversify the investment.

Left to himself a small investor—who has little experience on investment often suffers heavily for his ignorance. He cannot

CHAPTER XXVIII

BANKING

Functions

A bank deals in money and credit. It receives deposits from the public on *current account*. The money is withdrawable by cheques on demand. Good banks may not allow interest on current accounts, unless a balance is big.

Money is also received from the public on *fixed deposits*, which may be withdrawn after a fixed period. Fixed deposit accounts give interest.

A bank gives loans to a customer by a *fixed advance on a loan account*. In that case interest is payable on the entire amount of the loan until the latter is repaid. If loans are given by a fluctuating *overdraft account*, interest is charged on the overdrawn amount only.

A bank advances money by *discounting bills*, viz., banks buy bills of exchange at their face value minus the interest chargeable pending the maturity of bills.

A bank may collect cheques, bills, etc., for customers ; it acts as a trustee or executor ; it deals in foreign exchange, issues letters of credit, serves as a custodian of valuables ; banks may issue notes.

Although the note issue was regarded as an essential function of a bank formerly, the note issuing right is now generally vested in a Central Bank.

A bank helps mobilise capital in a society. It borrows money from persons who pass it for lending it to others who require it. So it acts like a middleman in financial matters.

Banks and Customers

If a bank receives money from a customer, it is free to utilise the money in any way it likes. Unlike other debtors, a bank is not required to repay its loan unless repayment is demanded by customers.

A bank is obliged to pay a cheque of a customer, if it is drawn in order and if there is adequate money in an account. If a

cheque is not paid by a bank, especially if it is drawn in favour of a third party, a customer is entitled to damages from a bank when there is adequate money in a customer's account. If a banker becomes insolvent, a customer may obtain dividends from the realisation of the assets of a bank like any other creditor.

If a cheque is forged and paid, a bank has to bear the loss. If a bank pays a post-dated cheque before the date, it cannot debit a customer's account. A cheque made to order is paid to a payee or an endorsee, and a bank is not liable if a payee's endorsement is forged. A bank may act as a trustee for customers, and any breach of faith may entail criminal liability.

A bank advances money to a customer against a security. It obtains a lien on such a security, which it can dispose of for realising the loan.

Banks may charge their customers annually for giving services.

Banks may give information about customers, if they are required to do so. If a manufacturer wants to transact business with a trader, he may like to know about the new customer's financial position. He may obtain the information by referring to a bank. Although a bank is required to keep utmost secrecy about a client's accounts, the practice of banks is to exchange information in respect of customers. In doing so a bank is careful not to disclose too much, nor will it give information to anyone except to a bank or to one of its customers. In no case the exact amount of a customer's account is disclosed.

A customer's account may be disclosed, if a bank is obliged to do so by law, or by the consent of a customer.

A Bank Balance Sheet

The financial position of a bank is disclosed by its balance sheet. On the liability side the following items are found:—

1. *Capital* represents the share capital which is contributed by shareholders. It may be fully or partly paid-up. Any unpaid capital is a liability of the shareholders which can be called up at any time. Such a contingent liability serves as a reserve fund which may be utilised in a crisis, so it creates confidence in the public.

2. *Current and Deposit Accounts* constitute money which is maintained by customers. In a current account a depositor may

draw money at any time. In the case of a deposit account, money cannot be drawn before a fixed period but it may be withdrawn earlier after giving a notice of withdrawal.

3. *Bills* are accepted by a bank on behalf of customers who arrange to place money in the bank for the payment of the bills. For such a service a bank receives commission.

4. *A Reserve Fund* is formed by the accumulation of undistributed profits.

5. *Dividends* and profit and loss account are shown.

6. By accepting *Letters of Credit*, a bank incurs liability up to the extent of the credit.

On the assets side the following items are shown :

1. Cash of a bank includes balances held by it in accounts with other banks. How much cash a bank should hold against the deposit liability is determined by experience. Scheduled banks in India are obliged to deposit with the Reserve Bank a balance, amounting to not less than 5 per cent. of their demand liabilities and 2 per cent. of their time liabilities at the close of business any day. Any default may be penalised.

2. *Money at Call and Short Notice* is invested in liquid assets. Money at call may be called back any time, and money at notice may be called back after giving a short notice. Such money is given to bill brokers and stock brokers who can repay it any time.

3. Investments in securities (including Government securities), bills, hundies and advances are liquid in so far as they are realisable whenever required. A bank's premises and real properties appear on the assets side.

The liquidity of assets shows a bank's soundness. As a bank is obliged to pay depositors money on demand, it must invest its assets in realisable securities, which can be converted into cash easily.

In respect of investment by banks and insurance companies there are similarities as well as differences. Security is of first consideration in both banks' and insurance companies' investments. A bank may be asked to pay money immediately, so a bank cannot afford to go in for long-term investments. It must keep its assets liquid, so its investments are short-dated. Insurance companies are required to pay their liabilities after a long time, so they can make long-period investments. Banks are therefore

suitable to financing trade and commerce. Insurance companies finance industries, in which the repayment of capital and interest is spread over a number of years.

Bank's Loans

In advancing money against bill, banks should take precautions against accommodation bills. If a loan is given to a person on the strength of his personal income, it is preferable that the loan is covered by an insurance policy on the life of a borrower, so that on his death a bank may not face difficulties. A loan should be given to a commercial firm after examining its balance sheet. In a partnership firm partners are jointly liable, so a banker's security is increased. In giving loans to a joint-stock company its Articles of Association should be examined for ascertaining the power of a company to borrow. Powers of directors should be examined. A loan should be covered by a good security.

Securities for Bank's Loans

Ordinarily a bank will advance money against a security, whose value exceeds a loan, including interest.

A security may be primary or collateral. In the case of a primary security, a creditor has a right of proceeding against a debtor personally, and he possesses a simultaneous right of proceeding against a pledged security.

Stocks and shares are desirable securities as they are marketable. Transferable securities are preferred.

Government securities, debentures and loans of Corporation, Municipality, Port Trust, etc., are good securities. Debentures of joint stock companies are favoured.

Documents of title to goods are acceptable securities. Loans and advances are given against securities, if a borrower acknowledges the right of a banker to dispose of goods in the event of a default to pay by executing a letter of hypothecation. A bank has a lien on goods until the debt is repaid. A bank may allow a customer to deal in the pledged goods, if he gives a letter to a bank, acknowledging the receipt of goods and undertaking to warehouse them in proper condition. A bank reserves its right of forfeiting the goods any time it likes. If a bank advances against goods, it may store the goods in the bank's warehouse.

A bank may advance money against the security of immovable property, such as buildings, land, etc., by a mortgage deed. An equitable mortgage means that title deeds of a property are only deposited with a bank. In a regular mortgage, a mortgagor transfers his proprietary interest in favour of a bank without giving physical possession.

A bank may advance money against a life insurance policy but the advance should be lower than the surrender value of the policy. The policy should be assigned in favour of the lending bank.

If securities are not available a bank may advance money on the personal guarantee of a third person who undertakes to repay a loan, if a primary borrower defaults to repay. Advances may be given against the security of book debts of a company, if they are assigned in favour of a bank.

Procedure of Opening of a Banking Account :

Introduction

An account of a stranger should not be opened by a bank without a letter of introduction from one of its customers, making enquiry from some other bank, or without obtaining a satisfactory reference.

Paying-in-Slip

An account is opened by paying cash, cheque or bill to a bank. The amount is written on a printed slip, consisting of a single leaf, or it is taken out of a book bound with counterfoils. The slip on which the money deposited with a bank is recorded, is called a *paying-in-slip*.

Signature

After opening an account with a bank, a customer places with a bank his specimen signature under which cheques are drawn. A bank verifies a customer's signature from his specimen signature.

Pass Book

A customer is given a pass book in which amounts paid out and received on behalf of a customer, are recorded.

Entries in a pass book are checked from counterfoils in a cheque book, showing cheques drawn, and from counterfoils in a paying-in-slip book, showing money paid in an account.

Any mistake should be notified to a bank within a reasonable time, otherwise it is assumed that a statement is correct. Banks send acknowledgment forms to customers once or twice a year for signature. If a customer is credited with an excess amount and is led to believe that such an amount remains to his credit, he may draw a cheque for the amount. A bank is liable if it refuses to pay such a cheque. A bank can correct its mistake by giving notice to a customer.

Pass Book Vis-a-Vis Cash Book

A certain amount of difficulty may arise in reconciling a pass book with a cash book, as a cash book may record payments, which are not "cleared", that is to say, the proceeds are not then available. Similarly it may record some drawings which are not paid out by a bank. In order to check the accuracy of a cash book and a pass book, it is necessary to prepare a reconciliation statement in the following way.

Bank Reconciliation Statement

31ST JANUARY, 19 .

| | | | | | | Rs. | A. | P. |
|--------------------------------------|-----|-----|-----|-----|-----|-----|----|----|
| Credit Balance per Pass Book | ... | ... | ... | ... | ... | 260 | 6 | 0 |
| Add amounts paid in but not cleared: | | | | | | | | |
| 26th December, 19 | ... | ... | 50 | 8 | 0 | | | |
| 28th December, 19 | ... | ... | 10 | 1 | 0 | 60 | 9 | 0 |
| | | | | | | | | |
| | | | | | | 320 | 15 | 0 |

Less cheques drawn but not presented:

| | | | | | Rs. | A. | P. |
|------------------------------|-----|-----|-----|-----|-----|----|--------|
| No. 12589 | ... | ... | ... | 30 | 6 | 0 | |
| No. 12561 | ... | ... | ... | 40 | 2 | 0 | 70 8 0 |
| | | | | | | | <hr/> |
| Credit Balance per Cash Book | ... | ... | ... | ... | 250 | 7 | 0 |

Thus on 31st January, 19 , a firm should have a balance of Rs. 266-6 as. in a pass book, and in a cash book the balance amounts to Rs. 250-7 as. The discrepancy is explained by drawing up a reconciliation statement.

No. BO.

.....BANK LIMITED

Current A/C Calcutta.....19 .

CREDIT

RUPEES

Cash only

FOLIO

CREDIT

RUPEES

Paying-in Slip (Cash)

.....BANK LIMITED

Current A/C Calcutta,.....19 .

| G. C. Notes: at Rs. 10,000 each | | | |
|---------------------------------|-------|---|--|
| " | 1,000 | " | |
| " | 500 | " | |
| " | 100 | " | |
| " | 50 | " | |
| " | 10 | " | |
| " | 5 | " | |
| Silver (whole Rs.) | | | |
| Small Coin | | | |
| Copper | | | |
| Total Rs. ... | | | |

CASHIER.

By.....

| G. C. NOTES: at Rs. 10,000 each | | | |
|---------------------------------|-------|---|--|
| " | 1,000 | " | |
| " | 500 | " | |
| " | 100 | " | |
| " | 50 | " | |
| " | 10 | " | |
| " | 5 | " | |
| Silver (whole Rs.) | | | |
| Small Coin | | | |
| Copper | | | |
| Total Rs. ... | | | |

CASHIER.

By.....

A SPECIMEN CHEQUE

Calcutta,.....19

No. _____

.....**BANK LIMITED**
CALCUTTA

ব্যাংক লিমিটেড

Pay _____ or Bearer
Order

Rupees _____

Rs. _____

Signature.

No. _____
_____ 19 .

Rs. _____

ENTD.....

PASS BOOK ENTRIES

| DATE | PARTICULARS | CHEQUE NO. | WITHDRAWALS | | DEPOSITS | | DR. CR. | BALANCE | | | Checked by | Official |
|--------|---------------------------------|-------------|-------------|---|----------|-----|------------|---------|-------|------|---------------|----------|
| | | | | | | | | | | | | |
| 1960 | | | | | | | | Cr. | 9,010 | 10 9 | | |
| Jan. 1 | By Balance | | | | | | | | | | | |
| | To Cheque | B.B. 203561 | 565 | 4 | 6 | | | | | | | |
| | By Cheque | | | | 575 | 4 6 | | | | | | |
| | By Cheque less Charges -/8/- | | | | 499 | 8 | | " | 9,720 | 3 | | |

Clearing System

A considerable portion of financial transactions is done through the medium of cheques. If a creditor is paid by a cheque, he pays it in his bank, which collects it from a drawee bank and credits the customer with the proceeds. So banks obtain cheques drawn upon one another. Instead of going to one another for collecting cash on account of cheques, banks agree to meet in one common place where they settle their mutual obligations. The meeting place is called a *Clearing House*, and every bank who is a member of a Clearing House maintains an account with a common bank (which is usually the Central Bank) which manages the Clearing House. Credits and debits of banks are mutually settled, and any difference is either paid or realised. The Clearing House system eliminates the need of handling coins, it reduces risks of collection and saves time, expenses, etc. The Clearing House is managed by the Reserve Bank of India in Calcutta, Bombay, Madras, Kanpur and Delhi. No bank can become a member of a Clearing House as a matter of right. In order to be enlisted as a member, its name has to be proposed and seconded by two existing members and approved by the majority of members of a Clearing House. As all clearing banks maintain accounts with the Reserve Bank, debts and credits are settled by drawing cheques on the Reserve Bank. A bank who is a member of a Clearing House is called a clearing bank.

If a non-clearing bank makes clearing arrangement through a clearing bank, it is called a sub-clearing bank. Cheques of sub-clearing banks are dealt with in a Clearing House on the responsibility and guarantee of a clearing bank with which a sub-clearing bank makes arrangement.

Branch Banking

Branch banking has a number of advantages. It helps mobilise savings by transferring money from one area to another. It is particularly true in India, as agriculture shows seasonal demand for money in different areas. It is possible to tap resources of every part of a country by branch banking. It helps distribute risks of investment.

Branch banking may create an undesirable money monopoly. Competition among banks may lead to unnecessary multiplicity of banks.

Indian Money Market

The Indian money market consists of (1) indigenous bankers, (2) joint-stock commercial banks, (3) foreign exchange banks, (4) The State Bank of India, (5) Post Office savings banks, (6) Co-operative banks, and (7) land mortgage banks.

Indigenous banks consist of money-lenders and shroffs. They advance loans against various forms of securities. They discount bills and hundies. They give hazardous loans, on which high rates of interest are charged. Usually, they do not take deposits from the public, and their funds are privately owned. In spite of adverse criticisms, they perform useful services. They are about the only source of finance in rural areas.

Joint-Stock commercial banks perform normal banking functions; they finance the internal and foreign trade.

The *foreign exchange banks* are foreign owned and managed. They finance the foreign as well as internal trade by discounting foreign bills, advancing against shipping documents, etc.

The *State Bank of India* which was formed by nationalisation of the Imperial Bank of India functions as a joint-stock commercial bank. It also transacts a large volume of foreign exchange business.

Co-operative banks finance mainly rural credit. They provide agriculturists with facile and cheap credit.

Land mortgage banks provide agriculturists with long-term credit against land. They are also formed on a co-operative basis. In view of the enormous rural indebtedness and of the necessity of supplying long-term agricultural credit, the possibilities of land mortgage banks, specially on a co-operative plan, are great.

Postal Savings Banks

Postal savings banks were established during the latter part of the 19th century. The Government does not maintain a specific cash reserve for meeting deposit liabilities. Postal savings banks provide safe custody for savings. The Post Office also mops up savings through cash certificates. In order to encourage expansion of Postal savings banks, the Government has introduced the use of cheques in Postal savings banks.

Industrial Banks

A commercial bank is not suited to giving long-term industrial finance, so industrial banks are established. They finance an industry against fixed assets. It is necessary for such banks to have experts who can advise them about the suitability of advancing loans to an industry. They control industries in which they put their money by keeping their representatives on boards of directors of companies. Industrial Banks may underwrite shares of companies. They provide industrial concerns with expert advice and help efficient production. Industrial banks should therefore have a large capital which can be locked up in long-term investments. In India there is as yet no important industrial bank. They can grow in India, provided the Government comes forward with a direct scheme of State assistance.

Central Banks and Their Functions

Being entrusted with control and regulation of credit and currency and by fulfilling its function as a banker to other banks and to the Government, a Central Bank is important. Many Central Banks have been set up on the model of the Bank of England. The foundation of the British system was laid in 1844. Beginning with the management of currency the Bank of England acquired other functions through a process of steady and gradual evolution. The inauguration of the Federal Reserve System which gave a Central Bank to the United States of America, restored financial order and stability in that country. The Great War I gave a set-back to the growth of central banking. In the wake of the political cataclysm there ensued in Europe a period of currency landslides and monetary chaos. Many European central banks collapsed causing currency breakdowns and financial dislocation. The collapse began as the Central Banks were cut adrift from their moorings of sound finance through political pressure. The International Economic Conference of Genoa held in 1922 laid down the foundations of the reformed Central Banks of Austria, Hungary and other European countries. The Central Bank of Germany was reformed under the Dawes plan.

A Central Bank should have exclusive rights of note issue. It should be the aim of monetary policy to maintain the stability of the purchasing power of the national monetary unit as measured

internally by the general level of commodity prices and by the relation of money to gold. A Central Bank should be able at all times to regulate the volume of currency and credit of a country. In order that it may always possess to the fullest extent the information and power to make such regulation constant and effective, it is necessary that the management of the currency should reside exclusively in its possession and that it should not be possible for other institutions to interfere with this policy by the issue of other currencies which may disturb the position.

The Reserve Bank has got the sole right of note issue.

A Central Bank should be a banker to the Government. The Government carries on several financial transactions which have effects on the capital, exchange, money and gilt-edged markets. For example, the Government of India is a banker to the Railways and State Governments. It issues Postal cash certificates and transacts monetary businesses through the Postal savings bank accounts. It issues Treasury bills and floats loans. Such transactions should be entrusted to an authority, possessing a thorough knowledge of the exchange, money, gilt-edged and capital markets. The Reserve Bank accepts money on accounts of the Central Government and the State Governments. The President and Local Governments which have the custody and management of their own provincial revenues shall entrust the Bank, on such conditions as may be agreed upon, with all their money, remittance, exchange and banking transactions in India, and, in particular, shall deposit free of interest all their cash balances with the Bank.

The President and each Local Government shall entrust the Bank, on such conditions as may be agreed upon, with the management of the public debt and with the issue of new loans.

A Central Bank should act as a banker to other banks for the regulation of credit.

Occupying as it does the privileged position of being a banker to the Government as well as to other banks and being entrusted with cash deposits of the latter, a Central Bank should not compete with other banks in business.

Bank of England

The Bank of England was established in 1694, and is now

governed by the Bank Charter Act of 1844, which contains the following main provisions:

1. The establishment of an Issue Department.
 2. Any one can take gold to the Issue Department and receive notes at the rate of £3. 17s. per standard ounce.
 3. The Bank has been allowed to issue fiduciary notes up to the extent of £14,000,000, against securities placed in the Issue Department.
 4. A bank note cannot be issued at a denomination below £5.
 5. The Bank must publish a weekly statement, showing its liabilities and assets in the Issue and Banking Departments.
- The Act separated the Bank's Issue and Banking Departments. The Bank cannot issue fiduciary notes exceeding £14,000,000 and any further issue must be covered by gold or silver bullion. But the Bank is empowered to increase the note issue by two-thirds of the amount of issue relinquished by any other bank, having a right of note issue. No bank can obtain new powers of note issue after the Act. The Bank Charter Act also empowers the Bank to mitigate financial crises by preventing inflation.

The Reserve Bank of India

The Reserve Bank of India was first established as a *private shareholders' bank* by the Reserve Bank of India Act, 1934. It started to work from 1st April, 1935. It took from this date the management of the Indian currency from the Government of India, and established an Issue Department for the purpose. It started a Banking Department on 1st July, 1935. The Reserve Bank was converted into a full-fledged State-owned bank from January, 1949 and the Government bought all the shares from the private shareholders.

The Central Board and the Local Boards

The general superintendence and direction of the affairs and business of the Bank is entrusted to a Central Board of directors consisting of 14 members, namely, (a) a Governor and two Deputy Governors appointed by the Central Government after consideration of the recommendations made by the Board in that behalf, (b) ten directors nominated by the Central Government, (c) one Government official nominated by the Central Government. For

each of the areas, namely, Western, Eastern, Northern and Southern areas, respectively, there is a Local Board consisting of five members nominated by the Central Board. In exercising the power of nomination, the Board is required to aim at securing the representation of territorial or economic interests not already represented and in particular the representation of agricultural interests and interests of co-operative banks. The functions of a Local Board are to advise the Central Board on such matters as may be generally or specifically referred to it and to perform such duties as the Board may, by regulations, delegate to it. Meetings of the Central Board are held at least six times a year and at least once a quarter.

Functions of the Bank

The Reserve Bank regulates the issue of bank notes, and keeps reserves with a view to securing monetary stability in India. It operates the currency and credit systems of this country. Its surplus profits, after certain appropriations as prescribed by the Act, accrue to the Central Government. To enable the Bank to exercise its control over currency and credit, the Bank is entrusted with the powers usually possessed by Central Banks. In the first place, the Bank has the sole right to issue bank notes in India. Secondly, the Bank has the right to hold the cash balances of important commercial banks—banks, included in the second schedule to the Act, being required under the Act to maintain with the Bank a balance not less than 5 per cent. of their demand liabilities and 2 per cent. of their time liabilities. Thirdly, the Bank has the right to transact Government business in India, the Central and the State Governments being required under the Act to entrust the Bank with all their money, remittance, exchange and banking transactions, and in particular to deposit free of interest their cash balances with the Bank.

The Bank is authorised to transact other businesses, usually performed by Central Banks, such as the acceptance of money on deposit without interest, rediscounting of bills and making loans and advances under certain conditions, issuing demand drafts made payable at its own offices or agencies, purchase and sale of securities subject to certain agreements with banks which are the principal currency authorities of other countries, etc. The Bank

has obligation to supply, in exchange for currency notes or bank notes of Rs. 5 or upwards, currency notes or bank notes of lower value or other coins which are legal tender under the Indian Coinage Act in such quantities which may, in the opinion of the Bank, be required for circulation. The Bank renders certain services to the Government, banks and public, such as rendering advice on banking and financial matters, arranging the clearing of cheques for banks, and collecting and publishing of banking and financial statistics. By exchanging information with foreign Central Banks, the Bank keeps in touch with economic and financial conditions abroad. Finally, the Bank shapes its day-to-day currency and credit policy in the light of prevailing financial conditions and requirements of this country from time to time.

Issue of Bank Notes

The Reserve Bank maintains a separate department called the Issue Department for issuing notes. Assets of this department are kept distinct from those of the Banking Department. Assets of the Issue Department consist of gold coin, gold bullion, foreign securities, rupee coin and rupee securities. Statutorily the Reserve Bank can hold a minimum of Rs. 200 crores in gold and foreign securities in the paper currency reserve. It is empowered to suspend even this minimum in emergency as long as the value of gold held in the reserve does not fall below Rs. 115 crores.

A Banker's Bank

An important function of the Reserve Bank is to regulate the banking system of this country. Every bank included in the second schedule has to maintain with the Reserve Bank a minimum balance equivalent to 3 per cent. of its total deposit liabilities. The accumulation of the balances with the Reserve Bank places it in a position to use them freely in emergencies to support the scheduled banks whenever they seek assistance as a lender of the last resort. To a certain extent it is also possible for the Reserve Bank to influence the credit policy of the scheduled banks through variations in their cash holdings by means of purchases or sales of Government securities, or of bills in the open market as provided in the Act. For example, purchases of securities by the Reserve Bank, other things being

equal, have the effect of enlarging the cash reserve of commercial banks, thus enabling them to expand their loans and advances. Similarly open market sales of securities reduce the cash balances of banks, forcing them to restrict their loan operations. The Reserve Bank has also another equally important instrument at its disposal for the control of credit in the Bank Rate which it publishes from time to time, according to the provisions of the Act. By this it can influence the structure of interest rates in the Indian money market. In making advances to scheduled banks, the Reserve Bank takes into consideration not only the nature of the security offered but also the general character of investments of an applying bank and the manner in which the bank's business is being conducted. The Reserve Bank is empowered by the Act to grant accommodation which is not to be used for long-term requirements. The Reserve Bank Act provides for assistance to agriculture. In the first place, the Bank cannot make advances to agriculturists directly and it can extend accommodation only through scheduled banks, or the provincial co-operative banks. Secondly, it is not authorized to supply long-term needs of agriculture and agricultural bills which it can discount are limited to those which are drawn for seasonal agricultural operations for the marketing of crops. The maximum period for which it can make advances is limited to nine months so that it is authorized to lend for short periods only. Lately the Bank has been authorised to lend for longer periods also.

Banker to Government

The Reserve Bank carries out the banking transactions of the Government. Under the Act, the Bank is obliged to accept money on account of the Central Government, State Governments, to make payments up to the amount standing to the credit of their accounts and to carry out their exchange, remittance, and other banking operations, including the management of the public debt.

Supply of Currency and Coin

The Bank performs a number of subsidiary or ancillary functions such as the supply of currency, extension of remittance facilities, management of the clearing houses, giving advice on financial matters, collection and dissemination of banking statis-

tics, etc. The Bank is required to convert notes of five rupees or upwards into notes of lower value or into other legal tender coins.

Remittance Facilities

The bank is responsible for the maintenance of Government treasuries and sub-treasuries. For the purpose of remittance facilities, branches of the State Bank, Government Treasuries and sub-Treasuries in India, having currency chest facilities, are regarded as agents of the Reserve Bank. The former are required to give facilities to banks and the public at rates, specified by the Reserve Bank with the approval of the Central and State Governments.

Advisory Functions

The Reserve Bank gives advice to Governments and banks on financial and banking matters. In its Agricultural Credit Department it possesses an organisation which is engaged in the study of rural finance. It gives advice to Governments about the co-operative movement. It inspects, on behalf of the Central Government, banks applying for inclusion in the second schedule to the Reserve Bank Act. It has extensive powers of inspecting and guiding other banks for ensuring their sound working.

Banking Statistics

The Reserve Bank collects and disseminates financial information and statistics. It has to prepare and transmit to the Central Government a weekly statement of its Issue and Banking Departments which is published by the Government in the Gazette of India. It has to publish every week a consolidated statement of the returns received from scheduled banks. It publishes communiques about Treasury bills, clearing house figures, Government loans, etc. It has taken over from the Central Government the compilation of the annual Report on Currency and Finance and the publication of the Statistical Tables relating to banks in India. It publishes a monthly Bulletin and submits to the Central Government an annual report of the Central Board.

Internal Organisation

The Governor is the chairman of the Board of directors and the chief executive authority. He is assisted by Deputy Governors. The Governor and Deputy Governors hold office for such periods, not exceeding five years, as may be fixed by the Government. They are eligible for reappointment.

The Agricultural Credit Department was established in April, 1935. Its functions are (i) to maintain an expert staff for studying agricultural credit. It is available for consultation by the Central Government, State Governments, Provincial co-operative banks, and other banking organisations, (ii) to co-ordinate the functions of the Bank in connection with agricultural credit and Provincial co-operative banks and other banks or organisations, engaged in agricultural credit. For the purpose of internal administration, the Department is divided into three sections, namely, the Agricultural Credit, Banking and Statistical and Research. The Agricultural Credit section studies problems, relating to rural finance, with particular reference to co-operation and legislation for the relief of rural indebtedness. It keeps close touch with the co-operative movement. It places its services at the disposal of the Central and State Governments, co-operative banks and other banking organisations which may consult it on problems of agricultural credit.

Clearing House

The Reserve Bank regulates the work of the clearing houses. With the establishment of the Reserve Bank of India and the opening of statutory accounts by scheduled banks with the Reserve Bank, it is arranged that members of the clearing houses should settle their clearing differences by cheques drawn on the Reserve Bank. Though the Reserve Bank is empowered to frame rules for the regulation of clearing houses of scheduled banks, the Bank has not found it necessary to change the rules so far and clearing houses continue to retain their autonomous character. The Bank has, however, agreed to supervise clearing at many centres where it has its own offices. The Bank looks after the clearing houses in Calcutta, Bombay, Delhi and Madras. Clearing houses have rules about admission of members and sub-members. Rules also

specify the hours at which clearing shall take place and state the manner of settling credit and debit balances among member banks, the method of dealing with dishonoured cheques, etc. Rules of clearing houses require that a bank must have a minimum paid-up capital and reserves before it is admitted as a member, and in some clearing houses the admission of members requires the support of three quarters of members.

Central Government Treasury Bills

Treasury bills are a form of short-term borrowing of the Government of India and they are issued for a term of 91 days. They are sold through the offices and branches of the Banking Department of the Reserve Bank either by tender or they are sold at an intermediate tap rate. If it is decided to call tenders, a Press communique stating the date on which tenders will be received, amount, currency of the bills offered for tender, and the date on which payment for tenders should be made, is issued to the Press for publication and it is also communicated to important banks, brokers and firms. Applications for tender should state clearly the terms of the bills applied for, amounts of the bills required, and the rate which the tenderer is prepared to pay. The rate offered should be expressed in rupees, and multiples of rupees for each Rs. 100 nominal of the bills applied for. If offers are in excess of the amount tendered, a proportionate allotment is made, the minimum allotment being Rs. 25,000. Treasury bills are available in the following denominations, namely, Rs. 25,000, Rs. 50,000, Rs. 1 lakh, Rs. 5 lakhs, Rs. 10 lakhs and Rs. 50 lakhs. If it is decided to sell intermediate treasury bills on tap, an announcement to that effect is ordinarily included in the usual communique, giving the results of tenders. The rate is also announced at the same time. On maturity, the Treasury bills are paid at the office or branch of the Reserve Bank from which they are issued.

A copy of an official Treasury bill communique is given below:—

Tenders for Rs. 1,00,00,000 of 91 days' Government of India Treasury Bills were opened on Tuesday, 22nd January, 1962. The total amount offered was Rs. 2,00,00,000. Tenders at Rs. 99-12-0 per cent. were accepted in full and those at Rs. 99-11-9 per cent.

were allotted approximately 72 per cent. The total amount accepted was Rs. 1 crore, the average rate of accepted tenders being Re. 1-1-0 per cent. per annum.

Tenders for Rs. 1,00,00,000 of 91 days' Government of India Treasury Bills will be received on Tuesday, 29th January, 1962, in Bombay up to 11 a.m. and up to the close of business on Monday, 28th June, 1962, at other centres. Successful tenderers should make payment on Friday, 2nd February, 1962. Other conditions are as usual.

91 days' Intermediates will be sold from 23rd January to 28th January, 1962, at Rs. 99-12-0 per cent, subject to the conditions previously announced (viz., sales can be stopped at any time without previous notice, if Government thinks it necessary).

91 days' Intermediates sold from 16th June to 21st January, 1962, amounted to Rs. 4,11,50,000.

During the week ended 18th January, 1962, Government of India Treasury Bills for Rs. 6,83,50,000 were sold in favour of the Issue Department of the Reserve Bank of India.

If the Government of India or any State Government requires temporary accommodation for a short period and the issue of Treasury bills is not considered suitable, it borrows from the Reserve Bank in the form of ways and means advances.

Scheduled and Non-Scheduled Banks

Since the inception of the Reserve Bank, joint stock banks in India have been divided into two main classes, namely, scheduled banks and non-scheduled banks. Scheduled banks which are compared to "member banks" in other countries, are those institutions which are included in the second schedule to the Reserve Bank Act, while non-scheduled banks are those which are not so included. Conditions which a bank must fulfil to be classed as a scheduled bank are laid down in the Reserve Bank Act which provides that the Central Government shall, by notification in the Gazette of India, direct the inclusion in the second schedule of any bank not already so included which carries on the business of banking in India and which (a) has a paid-up capital and reserves of an aggregate value of not less than five lakhs of rupees, and (b) is a company as defined in clause (2) of section 2 of the Companies Act, or a corporation or a company

incorporated by or under any law in force in any place outside India. A procedure has been evolved under which the Reserve Bank assists the Government in determining the eligibility of banks for admission to the schedule by valuing the paid-up capital and reserves after inspection, if necessary.

Under the Act, banks are liable to be excluded from the schedule, if the value of their capital and reserves fall below the prescribed minimum, if they go into liquidation, or cease to carry on banking business. The inclusion of a bank in the schedule, therefore, gives no continuing guarantee of its soundness or stability, and its fitness to be retained in the schedule is liable to be tested at the Government's instance, should the Government have any reason to believe that its affairs have deteriorated to such an extent as to make it *prima facie* unfit for retention.

Relations with the Reserve Bank

Under the Reserve Bank Act a scheduled bank has to maintain with the Reserve Bank a balance not less than 3 per cent. of its total deposit liabilities. The purpose of the reserves is to enable the Central Bank to exercise some control over the banking system.

A scheduled bank has to send to the Central Government and the Reserve Bank a weekly return of its position in a form prescribed by the Act. If the Reserve Bank is satisfied that the furnishing of a weekly return is impracticable in the case of a scheduled bank because of its geographical position, the Reserve Bank may require a scheduled bank to furnish a monthly return in lieu of a weekly return. From the weekly returns the Reserve Bank prepares and publishes a consolidated statement as required by the Act, and it gives a useful guide to the prevailing money conditions in the country.

In the event of a bank failing to maintain the minimum balance, the Reserve Bank can charge a penal interest on the shortfall at rates prescribed. By an amendment in 1940, the penalty for default has been made even more stringent by empowering the Reserve Bank to prohibit a defaulting bank from accepting fresh deposits during the period of default, and to penalise the directors and other officers who are wilful parties to a default.

If a scheduled bank fails to submit a weekly or a monthly return of its position to the Reserve Bank, it is liable to pay to the Central Government, to the Bank or to both, a penalty of one hundred rupees for each day during the period of default.

Scheduled banks enjoy financial accommodation from the Reserve Bank in the shape of rediscount of eligible bills, loans, or advances against eligible securities.

Control over the Banking System

In order to have adequate control over the credit and banking systems, the Reserve Bank has been given powers which are usually possessed by Central Banks. It can undertake open market operations and vary from time to time the minimum rate at which it rediscounts eligible bills of exchange. Although the Reserve Bank has been entrusted with powers of a Central Bank, its control is limited by the peculiar character of the Indian monetary and banking systems.

The Reserve Bank helps non-scheduled banks by extending to them special remittance facilities at concessional rates. Conditions to be fulfilled by non-scheduled banks if they want to avail themselves of the concessions are given below:—

- (a) they must be companies registered under the Companies Act,
- (b) they must do banking business in India in accordance with the provisions of the Companies Act, relating to banking companies, and
- (c) they must have a minimum paid-up capital and reserves of Rs. 50,000.

The Bank Rate

Bank Rate denotes the rate at which the Central Bank of a country is prepared to advance loans to other banks against approved securities. The rate must be fixed and published every week.

Market rate denotes the rate at which other banks are prepared to discount bills or commercial papers, and advance loans against approved securities. The market rate is, therefore, higher than the Bank Rate.

The Reserve Bank of India shall make public from time to time the rate at which it is prepared to buy, discount bills of exchange or other commercial paper under the provisions of the Reserve Bank of India Act. The Reserve Bank is trying to create a bill market in India and develop a bill habit among the people. So the Reserve Bank has two rates, namely, the Bank Rate and the Discount Rate. The Bank has also discretion to discount agricultural papers at a lower rate.

Weekly Return

The Reserve Bank is required by the Act to submit a weekly return to the President of the accounts of the Issue and Banking Departments in the prescribed form. It is to be published in the Gazette of India. The weekly statement discloses the conditions of the Indian money market.

AGRICULTURAL CREDIT DEPARTMENT

The Agricultural Credit Department of the Bank studies the co-operative movement closely. It indicates the lines by which an improvement in the co-operative movement can be effected. The Reserve Bank has laid down the procedure to be followed if co-operative banks are to obtain financial accommodation from the Bank. One condition is that a Provincial co-operative bank must maintain with the Reserve Bank cash balances which should not at the close of business on any day be less than $2\frac{1}{2}$ per cent. of demand liabilities and 1 per cent. of time liabilities of the bank. It must also submit to the Reserve Bank periodical statements as prescribed by the latter.

Bulletins and Studies

The Agricultural Credit Department studies agricultural credit and it is available for consultation by the Central and State Governments, Registrars of Co-operative Societies, co-operative banks and others interested in agricultural finance. The officers of the Department maintain a close touch with the co-operative movement and other agencies engaged in the supply of agricultural finance.

Other Studies

The Agricultural Credit Department has published a series of literature about financing of agriculture by Central Banks and governments in foreign countries, cattle and crop insurance, consolidation of holdings, licensed warehousing, audit, inspection, supervision of co-operative societies, etc. The Department acts as a clearing house for information in respect of agricultural credit.

RESERVE BANK OF INDIA

An Account pursuant to the RESERVE BANK OF INDIA ACT 1934 for the week ended 22nd day of May, 1962.

Issue Department

LIABILITIES

| | | Rs. | Rs. |
|---|--|-----------------|---------------------|
| Notes held in the Banking Department | | 18,82,63,000 | ... |
| Notes in circulation | | 17,52,34,55,000 | ... |
| Total Notes issued | | ... | 17,71,17,18,000 |
| Total Liabilities | | ... | Rs. 17,71,17,18,000 |

ASSETS

| | | Rs. | Rs. |
|---|--|----------------|---------------------|
| A. Gold Coin and Bullion— | | | |
| (a) Held in India | | 1,17,76,03,000 | ... |
| (b) Held outside India | | ... | ... |
| Foreign Securities | | 1,78,00,89,000 | ... |
| Total of A | | ... | 2,95,76,92,000 |
| B. Rupee Coin | | ... | 1,29,62,77,000 |
| Government of India | | | |
| Rupee Securities | | ... | 13,45,77,49,000 |
| Internal Bills of Exchange and other commercial paper | | | |
| | | ... | ... |
| Total Assets | | ... | Rs. 17,71,17,18,000 |

*Statement of the affairs of the Reserve Bank of India
Banking Department, as on 22nd May, 1962.*

LIABILITIES

| | Rs. |
|---|---------------------------|
| Capital paid up | 5,00,00,000 |
| Reserve Fund | 80,00,00,000 |
| National Agricultural Credit (Long-term Operations) Fund | 25,00,00,000 |
| National Agricultural Credit (Stabilisation) Fund | 3,00,00,000 |
| Deposits:— | |
| (a) Government— | |
| (1) Central Government | 54,40,10,000 |
| (2) Other Governments | 17,79,40,000 |
| (b) Banks | 80,39,72,000 |
| (c) Others | 1,18,32,93,000 |
| Bills Payable | 19,65,68,000 |
| Other Liabilities | 52,14,98,000 |
| Total Liabilities | Rs. 4,55,72,81,000 |

ASSETS

| | Rs. |
|--|---------------------------|
| Notes | 18,82,63,000 |
| Rupee Coin | 3,17,000 |
| Subsidiary Coin | 3,17,000 |
| Bills Purchased and Discounted:— | |
| (a) Internal | ... |
| (b) External | ... |
| (c) Government Treasury Bills | 10,73,95,000 |
| Balances held abroad* | 24,29,66,000 |
| Loans and Advances to Governments** | 32,61,76,000 |
| Other Loans and Advances | 66,85,00,000 |
| Investments | 2,89,16,93,000 |
| Other Assets | 13,16,54,000 |
| Total Assets | Rs. 4,55,72,81,000 |

* Includes Cash and Short-term Securities.

** Includes Temporary Overdrafts to State Governments.

The item 'other Loans and Advances' includes Rs. 6,52,04,000 advanced to scheduled banks against usance bills under Section 17(4)(c) of the Reserve Bank of India Act.

Indigenous Bankers

The Reserve Bank Act required the Bank to make a report to the Central Government, before 31st December, 1937, "on the extension of the provisions of the Act relating to scheduled banks to persons and firms, not being scheduled banks, engaged in India in the business of banking". Persons and firms referred to in this section are known as "indigenous bankers". In connection with the statutory obligation imposed by this section, the Reserve Bank addressed a circular letter on 6th May, 1937, to scheduled banks and indigenous bankers with a view to eliciting their opinion on the possibilities of linking indigenous bankers with the Reserve Bank. In the light of replies received, the Bank formulated a draft scheme dated 26th August, 1937, for linking indigenous bankers with the Reserve Bank in line with the recommendations of the Central Banking Inquiry Committee and legislation affecting banking companies. After taking into consideration the replies received, the Bank submitted a report to the Central Government. This report explained the reason why it has not been possible to recommend legislation for bringing indigenous bankers within the provisions (of the Reserve Bank Act), relating to scheduled banks.

Questions

1. How would you ascertain the financial standing of a customer with whom you had no previous dealings? If you have received an order from a man to whom, after enquiries, you consider credit is not advisable, how would you deal with the matter? (M. Com., Cal., 1960).
2. State how you would draw a cheque ensuring its payments to no other person than the payee himself. What is the effect of making a crossed cheque "not negotiable"? (M. Com., Cal., 1961).
3. The rate of interest for the first half of the calendar year is different from that during the second on current accounts in some bank in Calcutta. Give your views as to the probable reasons for the same. (B. Com., Cal., 1949).
4. Can Banks help to develop the Inland and Foreign Trade of a country? Explain fully by giving suitable examples, showing clearly the different steps taken by Bankers to safeguard their interests. (B. Com., All., 1958).

5. What is an Industrial Bank? (M.A. Com., Cal., 1929).
 6. What are the respective functions of the Reserve Bank and the State Bank? (B. Com., Cal., 1962).
 7. Describe the different methods in which a bank can function as money-lender. Use the exact technical terms. (B. Com., All., 1958).
 8. Estimate the services of a Clearing House organisation for banks. (M.A. Com., Cal., 1929).
 9. Explain clearly how movements in Bank Rate affect prices of securities in the Stock Exchange. Also show how trade is affected by a low Bank Rate. (B. Com., Cal., 1949).
 10. A Bank advances money to a manufacturer on hypothecation of all his manufactured goods. Discuss what practical steps the Bank should take to safeguard its own interests. (M. Com., Cal., 1960).
 11. Compare the function of a Bank with that of an Insurance Company in financing trade and industry. (B. Com., Madras, 1960).
 12. What are the duties and responsibilities of any of the following:—
(i) A Bank Manager; (ii) A Chief Agent for an Insurance Company and (iii) A Board of Directors? (B. Com., Cal., 1933).
 13. What are the principal functions of a Bank? How does a Bank help the promotion of trade and commerce? Has it got any power to ruin a business? (B. Com., Cal. 1943).
 14. What are the functions of an Exchange Bank? (B. Com., Cal., 1943).
 15. Describe the present position of the bill market in India. To what extent has the advent of the Reserve Bank facilitated its growth? What are the impediments to India's quoting prices in rupees in foreign trade, and how can these be removed? (M.A. Com., Cal., 1943).
 16. Can you give a broad classification of the banks operating in Calcutta and explain briefly the functions of each? (B. Com., Cal., 1958).
 17. Give your scheme for ensuring the proper distribution of Indian mill-made cloth to bonafide consumers at reasonable prices after de-control of textiles by Government. Discuss the advantages and disadvantages of Co-operative Consumers Societies in this connection. (B. Com., Cal., 1948).
 18. Describe the different types of Banks that are found operating in Calcutta and explain briefly the functions of each. (B. Com., Cal., 1949).
 19. What is a Co-operative Multi-Purpose Society? Examine the part that such an organisation may play in our nation-building efforts. (B. Com., Madras, 1958).
 20. It is said that "the Exchange Banks play an important role in the foreign trade of India." Discuss (B. Com., Cal., 1954).
 21. Do you think that the State Bank of India is a Commercial Bank or an Exchange Bank or both? How does it finance business? (B. Com., Cal., 1958).
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CHAPTER XXIX

METHODS OF REMITTING MONEY

Remittance by Transport

The straight method of sending money by a debtor is to send legal tender to his creditor. The direct method is rarely practised. In international payments domestic currencies of a country are not acceptable by nationals of another country. So the system of paying by foreign exchanges is found in international trade. In inland trade it is risky and inconvenient to send money by railways, steamers, or other conveyances. So there are various methods of remittances through the Government, Post Office, banks, etc.

Transfers through Government Treasuries

Government Treasuries sell to the public "supply bills" and transfers, drawn upon other Treasuries, if the latter have sufficient money and commission is charged for the service.

Postal Remittance

Remittance by postal money orders is convenient for sending small amounts of money but it is very expensive if big amounts are involved. Money may be sent by means of registered and insured Postal Post.

Transfers through Reserve Bank and State Bank

The Reserve Bank of India issues and pays telegraphic transfers and Bank-post bills. The State Bank of India purchases demand drafts, pays drafts and telegraphic transfers.

Cheques

The bulk of remittance take place through cheques, bills of exchange, drafts, etc. If a cheque is payable to another person, it must be endorsed by a payee on the back before payment. Crossed cheques can be cleared through a bank only; specially crossed cheques are cashed through a specified bank. "Not Negotiable" marked cheques cannot give a title to a person who

is not a legal owner. Cheques are convenient and cheap methods of remitting money.

Bills of Exchange

International indebtedness is settled mostly by bills of exchange. A bill of exchange is an order addressed by a creditor to a debtor, asking the latter to pay a certain amount of money either immediately or after some time to a person, his order or to bearer. If a bill is to be paid immediately on presentation to a drawee it is known as a sight or demand bill. In other cases, a bill is usually signed by a drawee across it, later it has to be accepted. Exporters present bills to a bank for collection or they may sell bills to a bank in which case they are called discounted bills.

Banker's Drafts

A bank may draw a bill of exchange upon one of its branches or agents, asking it to pay a specified amount of money either on demand or after a period. A banker's draft is payable on demand.

Mail and Telegraphic Transfers

Mail transfer, i.e., M.T. denotes an order sent by mail and given by a bank upon its agent or branch in a foreign centre to pay a certain amount of money either on demand or after a period. As the method may involve delay if a mail is missed, guaranteed mail transfers or guaranteed payments are made. In that event banks guarantee payments at a fixed date. Such transfers are therefore advised by cable and not by mail. Telegraphic transfers, i.e., T.T. means that a bank advises its branch or agent by cable to pay a certain amount of money. This kind of remittance is quick but expensive. T.T. is also sold in foreign currency. For example, an Indian merchant can buy £100 T.T. in exchange of rupees for paying a manufacturer in England.

Questions

1. What are the different methods of remittance of money in India?
2. Explain the utility of T.T. for transferring funds.

CHAPTER XXX

NEGOTIABLE INSTRUMENTS

Definition

A *negotiable instrument* denotes an instrument (a contract in writing) which is transferable either by mere delivery, or by endorsement and delivery, if it is payable to order, by law, or custom which is recognised legally. The following are the features of a negotiable instrument.

(1) (a) It should pass from one person to another by *mere delivery* if it is payable to bearer, or (b) by *endorsement and delivery* if it is payable to order. A non-negotiable instrument can be transferred by legal formalities only.

(2) The holder of a negotiable instrument is deemed *prima facie* a holder in due course, that is to say, a holder receives it for value and in good faith, free from any notice of a defect in the title of a transferor. In order to show that a holder is not *bona fide*, others will have to prove their case. A holder of a negotiable instrument holds it *free from equities*, viz., free from a defect in the title of a transferor, or any other previous holder. In the case of a non-negotiable instrument, the present holder does not possess a better title than the one from whom he gets it. So if a stolen property is taken by anybody, the latter's title remains defective although he receives it for value.

(3) A holder of a negotiable instrument is *prima facie* assumed to have acquired it in *consideration for value*, and

(4) he is entitled to *sue upon* it in his own name, notwithstanding any previous notice being given to the person, who is liable to pay on the instrument. If a holder of a non-negotiable instrument sues upon it, he must prove that he has given consideration for it.

In order to show that a holder of a negotiable instrument is not a *bona fide* holder for value, it must be proved either (a) that he has actual notice of some defect of title on the part of the person who passes it to him or (b) that he has constructive notice

of some defect of title of the previous holder in the sense that circumstances under which it is negotiated should arouse suspicion in a prudent man about the genuineness of negotiation.

Negotiable instruments include bills of exchange, cheques, promissory notes, dividend warrants, bearer bonds, scrip certificates, entitling a bearer to a share of a company, Treasury and Exchequer bills, etc. Share certificates, bills of lading and postal orders are not negotiable instruments, although they are transferable.

BILL OF EXCHANGE

Definition

A bill of exchange denotes an unconditional order in writing, given by one person signing it, requiring another to whom it is addressed to pay on demand, or at some future date, a certain amount of money to, or to order of a stated person, or to a bearer. If other things are also ordered to be done in addition to the payment of money, it ceases to be a bill of exchange.

Parties to a Bill

There are *Drawer*, *Drawee* and *Payee*, to whom proceeds are payable. A drawer may himself be the payee. A drawee becomes the acceptor after accepting a bill. Any other person who puts his signature on the back of a bill becomes an endorser. Although the payee is not a party to a bill, he becomes liable as an endorser after signing a bill on the back.

Tenor, Date, Amount

A bill is payable on demand, presentation, sight, or on the expiry of a certain time after demand, sight or presentation, or at some fixed date. The time within which it is payable is known as its tenor. It may be payable to bearer or order. It usually contains a date and states that it is drawn for consideration, but even if these two things are not found in a bill it does not become an invalid bill. If there is a discrepancy between the figure and the amount in words, the latter is taken to be correct, unless it is corrected by a drawer.

Advantages

International payments are made by bills of exchange ; they are known as foreign bills. Internal trade may also be financed by means of bills called inland bills which are commonly used in India in the form of hundies.

Bills in Sets

Bills of exchange are generally drawn in certain forms. Inland bills are usually drawn singly, while foreign bills are drawn in duplicate or triplicate. The latter method is known as drawing *Bills in Sets*. Each set of bill is sent to a drawee by different mails for ensuring that he must get at least one. If one bill is transacted, others become inoperative.

INLAND BILLS

| | | |
|--|---|--|
| Accepted. Bose & Co., 10th July, 19 . | Stamp | No. 4201 <i>Calcutta, July 5, 19...</i> Rs. 500/- |
| | <p>On month after date pay B. C. Kar or order the sum of rupees five hundred only (Rs. 500) for value received.</p> <p>To</p> <p style="text-align: center;">Messrs. Bose & Co., Johnson Road, Delhi.</p> <p style="text-align: right;">S. Ghosh.</p> | |

The word "Accepted" may or may not be put ; a signature is adequate for acceptance.

FOREIGN BILL IN A SET OF THREE

(Original)

Stamp

No. 40
£2002, Church Lane,
Calcutta, 12th July, 19 .

Sixty days after sight of this First of Exchange,
Second and Third of the same tenor and date unpaid,
pay to the order of Messrs. John & Co., the sum of
two hundred pounds for value received.

To

Messrs. Jackson & Co.
Avenue Street,
London, W. 1.

S. Dutt.
Dutta & Co.

(Duplicate)

Stamp

No. 40
£2002, Church Lane,
Calcutta, 12th July, 19 .

Sixty days after sight of this Second of Exchange,
First and Third of the same tenor and date unpaid,
pay to the order of Messrs. John & Co., the sum of
two hundred pounds for value received.

To

Messrs. Jackson & Co.,
Avenue Street,
London, W. 1.

S. Dutt.
Dutta & Co.

(Triplicate)

| | | |
|---|--------|---------------------------|
| Stamp | No. 40 | 2, Church Lane, |
| | £200 | Calcutta, 12th July, 19 . |
| <p>Sixty days after sight of this Third of Exchange, First and Second of the same tenor and date unpaid, pay to the order of Messrs. John & Co., the sum of two hundred pounds for value received.</p> <p>To</p> <p>Messrs. Jackson & Co., Avenue Street, London, W. 1.</p> <p>S. Dutt. Dutta & Co.</p> | | |

If a bill is singly drawn, another may have to be drawn if the first one is lost and a payee undertakes to compensate for any loss if the first one is recovered.

Acceptance

A bill must be *accepted* properly by the signature of a drawee before the latter becomes a party to a bill. Signature is adequate for the acceptance of a bill. Any other person than a drawee can sign by authority, that is, by *procuration*. Signature by mark, stamp, print, etc., is considered to be valid. A drawee must be given 48 hours within which he must decide whether to accept a bill or not. If a person accepts a bill by forging the signature of a drawee it becomes an invalid bill. Once a bill is accepted, a drawee cannot avoid responsibility on the plea that a drawer's signature is forged.

Acceptance may be general or conditional. It is general acceptance if a bill is accepted in the form it is drawn. If it is accepted with modification it becomes a conditional acceptance, which may be of various kinds. (a) Payment may be conditional

upon the fulfilment of certain conditions. (b) A bill may be accepted only for a portion of the full amount of a bill. (c) The time of a bill may be changed. (d) Only some of the drawees of a bill may accept a bill. (e) A bill may be accepted on condition that payment will be made at a certain place. The place of payment is called the domicile of a bill. A drawer or holder has always a right to claim an unconditional acceptance and regard a bill as invalid if it is accepted conditionally. A bill may be accepted before it is signed by a drawer. If a holder of a bill agrees to a conditional acceptance, the responsibilities of a drawer and of an endorser, if there be any, cease to exist.

EXAMPLES OF ACCEPTANCES

- | | |
|--|--|
| 1. Accepted payable at Midland Bank. | 1. This is general acceptance without qualification. |
| Bose. | |
| 2. Accepted payable on delivery of bill of lading at Midland Bank. | 2. This is conditional acceptance, payment being dependent upon the delivery of documents. |
| Bose. | |
| 3. Accepted for £200 only. | 3. This is part acceptance, that is, agreeing to accept and pay portion of a bill. |
| Bose. | |
| 4. Accepted payable at Midland Bank and there only. | 4. This is local acceptance, agreeing to pay at a particular place. |
| Bose. | |
| 5. Accepted payable in four months. | 5. This is qualified in respect of time; bill payable after four months although drawn for three months. |
| Bose. | |

Endorsement

Endorsement of a bill is (a) blank, if it is endorsed by only signature. So it becomes payable to a bearer. It may be (b) special or in full, that is, if it is endorsed in favour of an endorsee to whom or to the order of whom payment is to be made. (c) It is restrictive endorsement if the negotiability of a bill is ended or restricted by an endorser, or if an endorser appoints an endorsee to endorse a bill on his behalf, or receive payment on his behalf,

or restricted by an endorser, or if an endorser appoints an endorsee to endorse a bill on his behalf, or receive payment on his behalf. For example, Mr. Bose makes a restrictive endorsement in the following way. "Pay the amount to Mr. Dutt only; or pay Mr. Dutt for my use; or the amount must be credited to Mr. Dutt." So further negotiability of the bill, so far as Mr. Dutt is concerned, is finished.

Conversion of one type of an endorsement into that of another is permitted.

An endorser is liable for the acceptance of a bill and he guarantees its payment, unless an endorsement is qualified by words "without recourse" or similar such words. In that event the liability of an endorser ceases. An endorsement is generally made on a bill, or on a slip of paper called "alonge" attached to a bill.

Holder

A bill is transferable from one person to another. If it is transferred it is said to be *negotiated*. A bill of exchange is negotiable unless an endorsement is made to make it not negotiable. The person to whom a bill is negotiated is the *payee* or the *holder*. A holder is considered to be holder in due course if he receives it (a) before it becomes overdue or, before receiving a notice that it has been dishonoured, (b) for valuable consideration in good faith and without knowing any defect of a previous holder and (c) after examining that a bill is a regular one on the face of it.

Presentations

If a bill is presented to a drawee for acceptance or payment, it is known as *presentment of a bill*. A bill must be presented in due time at the proper place by a holder, and in default of due presentment the responsibility of the acceptor and drawer ceases. Any delay on presentment caused not by the negligence of a holder is allowed. A sight bill is presented for acceptance, and the period of payment is counted from the date of sight.

Dishonour

A bill is said to be *dishonoured* if either acceptance or payment is refused, or if a bill is overdue and unpaid. Notice of

dishonour must be communicated within a reasonable time, and failure to note and protest in the case of dishonour of a foreign bill absolves a drawer and endorser of responsibilities. A notice of dishonour issued by a holder gives right or recourse to prior endorsers and subsequent holders against the party to whom a notice of dishonour is given.

Noting and Protesting

Noting is preliminary to a protest. If a promissory note or a bill of exchange is dishonoured, such dishonour must be noted and then protested by a Notary Public either upon the instrument or on a paper enclosed therewith. Such a note must be made within a reasonable time of dishonour, giving date of dishonour, its causes, etc. After noting, a Notary Public may prepare a protest, attesting the dishonour and specifying the intention of a holder to recover the amount. A protest can be made any time after noting. Noting and protesting are considered as evidence of dishonour by law courts. When a Notary Public is not available, a householder of the place may certify the dishonour with two witnesses, attesting the dishonour by signatures. This kind of certificate is called a *householder's certificate*.

If it is a demand bill, it should be presented for payment within a reasonable period. In the case of other bills, three days are allowed as grace days, counting from the day when the payment becomes due from the date marked on a bill.

Liability

A person competent to make a contract may bind himself by drawing, accepting, endorsing, and delivering a negotiable instrument. If a bill is accepted, the *primary liability* rests upon an acceptor. If a bill is dishonoured, a holder realises it from the last endorser, who in turn realises it from the previous one until it is finally paid by the drawer. Later the drawer realises it from the drawee. Endorsers become liable in order of endorsements. If a bill is payable to a bearer by mere delivery, a holder is not liable as a party to a bill, provided it is negotiated in good faith.

The liability of a party on a bill to a holder ceases to exist under the following circumstances:—(a) if a holder cancels

acceptor's or endorser's name with the object of discharging him from liabilities on a bill; (b) if a bill is payable to a bearer and the maker, acceptor or endorser pays a bill in due course; (c) if a holder allows the drawee more than 48 hours to accept a bill, or without previous consent of other parties liable on a bill; (d) if a holder agrees to a qualified acceptance without consent of parties liable on a bill; (e) if a holder makes any material alteration in a bill; (f) if a bill is held by an acceptor in his own right at or after maturity, i.e., the date on which the payment of a bill falls due.

Acceptance and Payment for Honour

When a bill is noted or protested for non-acceptance or non-payment, a person may accept or pay a bill for the honour of a party liable on a bill. In that event the name of the party whose honour it is intended to maintain must be declared before a Notary Public. All parties coming after the party for whose honour a bill is paid are discharged from liabilities on the bill. A person who pays for honour becomes a holder of a bill with all rights of a due holder. Later he can realise the money he pays with interest from the party for whose honour a bill is paid. This kind of acceptance or payment for honour is known as *Acceptance for Honour Supra Protest* or *Payment for Honour Supra Protest*. A person who accepts or pays in the case of non-acceptance or non-payment is mentioned in a bill by a drawer, acceptor or endorser. Such a person is the same as a *drawee in case of need*, and he is considered a drawee if the primary drawee refuses to accept or pay a bill. Such a drawee in case of need may or may not be mentioned in a bill. The holder may or may not go to such a drawee in case of need. In India a bill is not considered to be dishonoured until such a drawee in case of need either refuses to accept or pay a bill. The drawee may accept or pay a bill in India even before protest.

Discounting Bills

A holder discounts a bill with a bank. The bank advances the amount of a bill after deducting interest accruable on the amount paid. In discounting a bill, a bank becomes a holder in due course. A bank will not discount a bill unless the drawer, acceptor and endorser are parties of good credit and standing.

Renewal of Bill

Inland bills may be renewed either partly or fully. If an acceptor feels that he may not be able to pay on maturity, he requests a drawer to draw a fresh bill for the full amount, or a portion thereof if part payment is made. A drawer agrees to do so if a drawee is prepared to pay interest on the due amount for the period extended. If a bill is already discounted, a drawer makes corresponding arrangements with a discounting bank.

Documentary and Clean Bills

If a bill of exchange is attached with documents such as a bill of lading, invoice, etc., which are required to take delivery of goods, it is called a *documentary bill*. If no document is attached to a bill it is called a *clean bill*.

“Sans Frais” and “Sans Recourse”

A drawer may advise a collecting banker not to spend money for nothing and protesting in case of dishonour by putting the words “*Sans Frais*” on a bill. The words should be used in a separate paper as distinct from a bill, so that an acceptor may not know that a drawer has any doubt in respect of an acceptor. If a person endorses a bill without incurring any liability, he must prefix his endorsement by the words “*sans recourse*” or “*without recourse*”.

Retiring Bill

The practice of retiring a bill has grown mainly in connection with D/P bills. A merchant who has accepted a D/P bill may desire to take delivery of goods before the maturity of a bill, but he cannot do so unless he pays a bill if the documents of title to goods are given to him. So a merchant will get into touch with a holder, and communicate to him his desire to “*retire*” a bill. If a holder agrees, then a merchant “*retires*” a bill by paying a bill before maturity at less than its face value. Documents of title to goods are later delivered to him.

Inchoate Bill

If a simple signature is put on a blank stamped paper and it is handed over to a holder for converting it into a bill, a holder is assumed to possess the right of converting documents into a bill, the amount being covered by the stamp. The blank signature can be utilised for a drawer, acceptor or endorser. A holder has also a right of filling blanks in a bill. In order to bind a party to such a bill who becomes a party prior to filling blanks, blanks should be filled within a reasonable time. If such a bill is negotiated, the holder becomes a holder in due course and the bill is considered a regular one. Such a bill must be given delivery, actual or constructive, before any rights accrue to a holder. A delivery is presumed to be valid if the bill is a complete and regular one at the time it leaves the party who is to be charged. This right does not hold good in the case of an inchoate bill or instrument.

Accommodation Bill

An accommodation or a "fictitious" bill, as it is sometimes called, denotes a bill, in which a drawer, acceptor or endorser puts his signature on a bill without receiving value for the same in order to lend his name to some other person. Any one who signs such a bill is called an accommodation party. An accommodation party to a bill becomes liable on a bill to any subsequent holder for value, and it is of no importance whether a holder takes a bill, knowing the party to be an accommodation party.

Hundies

Hundies are found in India, and they are virtually inland bills of exchange. If a Hundi is a bill of exchange and satisfies conditions of a negotiable instrument, it becomes a negotiable instrument. There are various types of Hundies in India.

The original form in which a Hundi is drawn is known as a *Jokhmi Hundi*. It is drawn in vernacular, and it is a *conditional* order to accept or pay, provided commodities against which it is drawn, are delivered to a consignee in proper order. It is not strictly a bill of exchange. This type of Hundi used to be drawn during earlier days, when communications and means of transport

were hazardous. It was intended to protect a drawee, who was free either to accept or pay, according to the safe arrival of the goods.

Among Hundies which are in vogue in India, there is a two-fold classification, namely *Darshani* and *Muddati Hundies*. The former are sight drafts, payable on demand, or at sight. The latter serve as usance bills and they are payable after a fixed date. It is the practice to draw Hundies in original, and no copies are made. A copy is made only in case of loss or damage of the original one, and a copy mentions the fact. It is not necessary that a copy should be made exactly like the original one.

The most popular form of a Hundi in this country is an order Hundi, or a *Shahjog Hundi*. A *Shahjog Hundi* is made payable to a Shah (a respectable person), that is to say, it must be endorsed by a payee, who ought to be a person of respectability and position.

A *Dhanijog Hundi* is a bearer Hundi, and payable to a bearer. This type is not commonly used.

There is another type of Hundi, in which protection is secured beforehand in case of dishonour by a drawee, by attaching either a letter to a Hundi, or by mentioning therein the name of a person, other than a drawee, of the place of a drawee. In the case of dishonour by a drawee, it is endorsed for honour either by the addressee of a letter attached to a Hundi, or by a specified person. This type of Hundi is called a *Zickri Hundi*.

A *Namjog Hundi* contains the descriptive roll of a payee, and it is payable to a specified payee.

PROMISSORY NOTES

Definition

A promissory note denotes an *unconditional promise* in writing, signed by the maker of a note, to pay on demand, or at a future date, a certain amount of money to a specified person, his order or to a bearer.

Liability

The liability of a promissory note may be joint, or joint and several. The maker of a promissory note may be a single individual, or more than one individual. In the latter case, the liability of the makers is joint, or *joint* and *several*, according to the wording of a promissory note. If it is worded "We promise to pay, etc.", it is a case of joint liability, while if it is "I promise to pay, etc." and every maker signs it, liability is joint and several. In the former case, a creditor has got only one right of action and must sue all makers in one action. If he leaves out any, and a judgment fails, he can no longer proceed against the one left out. But in the case of joint and several liability, a creditor has a right of action against each singly, and against all jointly. If he sues one, and a judgment fails, he can proceed against the others.

Bills and Promissory Notes

Bills are distinct from promissory notes. In a bill of exchange, there is a drawer and an acceptor, and a drawer is *secondarily* liable on a bill. In a promissory note the maker is the drawer, and he is *fully liable* for it. A bill is an order to pay, while a promissory note is a mere *promise to pay*. Bills are accepted if they are payable other than on demand. Promissory notes are *never accepted*. *Conditional acceptance* on bills is possible, but notes must be made unconditional. Acceptors of a bill are jointly liable, while makers of notes may be either jointly or severally liable.

HUNDI

Rs. 200/-

(60) Sixty.....Days after Date Without Grace
Pay to the order of Bose & Co., Calcutta at their office the sum
of Rupees Two hundred only.....for value received in
cash and that with interest @ 2 per cent. per month after due
date.

Stamp.

Signature.....

PROMISSORY NOTE

Rs..... Calcutta.....19 .

On Demand I/We jointly and severally promise to pay Bose & Co., Calcutta, or order the sum of Rupees.....
only for value received with interest thereon at the rate of.....per cent.
 per annum from this date until the date of repayment with monthly half-yearly rests.

Dated, Calcutta,
 The 10th July, 1962.

Stamp.
 Signature.....

CHEQUES

Definition

A cheque is a bill of exchange drawn on a banker payable on demand. It is an unconditional order addressed by one person to another, that is, by a customer on his bank to pay or to his order a certain sum of money.

A *Bearer Cheque* is payable to a bearer if (a) it is drawn payable to a stated person, bearer or when no name is inserted at all, (b) the last endorsement is in blank, or (c) the payee is a non-existent person, e.g., pay rent. When a cheque bears on its face that it is payable to a bearer, it cannot be converted into an "Ordered" cheque by subsequent endorsement, although the Bombay High Court holds a contrary view. The position is not yet clear. But a cheque which bears "Order" on face of it, can be converted into a bearer cheque by an endorsement of a drawer.

An "Order" cheque means that it is payable to a specified person, or to his order. If a cheque is made payable to a person, and he endorses it, then it becomes payable to his order. If a cheque is made payable to a person with the addition of words, "Pay Bose only", "Not Transferable", etc., then the cheque is payable only to a payee, because this kind of endorsement is called a *restrictive endorsement*. If a payee of an "order cheque" signs on the back, it becomes a blank endorsement in which case the

cheque becomes payable to any person. Such a blank endorsement may be converted into a special one by giving some special directions over the endorser's signature, *e.g.*, Pay Ghosh & Co. Then it becomes a special endorsement and the cheque cannot be cashed without the endorsement of Ghosh & Co.

Payees may be either joint or alternative, *e.g.*, Pay S. Bose and N. Sen, in which case endorsement of both is required; pay S. Bose or N. Sen, then either may endorse and receive payment.

EXAMPLES OF ENDORSEMENTS

| <i>Endorsement by Payee</i> | <i>Meaning of such Endorsements.</i> |
|--|--|
| 1. B. Dutt. | 1. Blank endorsement meaning Payable to bearer. |
| 2. Pay S. Roy or Order B. Dutt. | 2. Special endorsement. |
| 3. Pay S. Roy only B. Dutt. | 3. Restrictive endorsement. |
| 4. Per pro. Ghose & Co. B. Dutt, Manager. | 4. Per procuration endorsement. |
| 5. Pay Ghosh & Co. or Order B. Dutt. | 5. In a partnership, signature of any partner is sufficient and it binds other partners. |
| 6. B. Dutt, Executor of Late C. C. Bose. | 6. Executor's endorsement when there is only one executor. |
| 7. For self and co-executors of Late C. C. Bose. B. Dutt. | 7. Endorsement of one executor is sufficient and it binds others. |
| 8. S. Sil. N. Sen. } <i>Trustees.</i> K. Roy. } | 8. Endorsements of all trustees necessary. |
| 9. Kamal Das *(Finger tip) witnessed by B. Bose. 2, Church Lane, Calcutta. | 9. Endorsement of an illiterate payee. |

Post-dated and Ante-dated Cheques

If a cheque is drawn bearing a date much later than when it is drawn it is a post-dated cheque. The object of such a cheque is to delay payment. An ante-dated cheque refers to a cheque which bears a date earlier than the date when it is made.

Crossed Cheques

A crossed cheque bears across its face two parallel transverse lines, and between them there may or may not appear the words "And Co.", "Not Negotiable" or both. Such a crossing is known as a "*general crossing*". If other words like names of a bank are added, the crossing is called a "*special crossing*".

The object of crossing a cheque is to make it payable to a payee only through a bank.

If a cheque bears words like "Not Negotiable", the cheque ceases to be a negotiable instrument, *viz.*, the holder of a "Not Negotiable" marked cheque can possess no better title to the cheque than the one from whom he takes it. If such a cheque is stolen a thief acquires no good title to it. Such markings are made on a crossed cheque. A "Not Negotiable Crossed" cheque is, however, transferable.

Where "*A/C Payee*" is marked, it means that a collecting bank is asked to collect funds on such a cheque, and place them to the credit of the payee.

"Bank Ltd." means that a cheque can be cleared only through a specified bank, or a specified bank in a particular place, e.g., Bank Ltd., Calcutta.

A cheque may be crossed by a drawer, endorser or holder.

If a crossed cheque is cleared except through a bank, the responsibility lies with a paying bank, who must bear losses, if there be any.

Presentation

A cheque is payable in due course by a drawee banker, if it is drawn in proper order, sufficient money being available against it to a drawer's a/c., or payment is arranged by a drawer by means of an overdraft a/c. Cheques should be presented for payment within a reasonable time.

Specimens of General Crossing

1. _____
2. _____
3. _____
under fifty rupees
& CO.
4. NOT NEGOTIABLE & CO.
5. A/C PAYEE ONLY & CO.
6. NOT NEGOTIABLE
A/C PAYEE ONLY CO.

Specimens of Special Crossing

1. BANK LTD.
2. BANK LTD. CALCUTTA.
3. BANK LTD. NOT NEGOTIABLE.
4. BANK LTD. A/C PAYEE ONLY.
5. BANK LTD. CREDIT TO BOSES A/C ONLY.

CHEQUE

No.....

No..... CALCUTTA.....19.....

THE BANK LIMITED

বক লিমিটেড

CALCUTTA

বাক লিমিটেড

Pay..... or Order

Rupees.....

Signature.

Rs.....

Rs.....

.....19.....

.....

.....

.....

Countermand of Payment

The countermand of payment, that is, stopping payment of a cheque is made by a drawer, by giving notice to a drawee bank before a cheque is paid. The payment of a cheque is stopped by a notice of customer's death, by a receipt of a garnishee order, or by a notice that a customer has become bankrupt.

Forgery

If a cheque is cleared and paid by means of a forged signature of a drawer, a bank is liable. If an amount is altered by a payee, a banker is liable for an excess payment over what is intended to be paid by a drawer, provided it is proved that a customer exercised all care and scrutiny to stop forgery. In order to safeguard their interests, banks insist that an alteration must be initialled by the full signature of a drawer.

If a drawer's signature is forged, a bank should be able to detect the forgery, so it has to pay liabilities in the event of a fraud. It is different if an endorser's signature is forged, as a bank is not expected to know an endorser. The law is that if a bank pays on the signature of an endorser, a cheque is deemed to be paid in due course, provided a bank pays it in good faith and in the ordinary course of business.

If a cheque requires an endorsement, it is made on the back of a cheque and it should be made regularly, viz., an endorser's signature should be spelt exactly in the same way as the name of a payee appears on the face of a cheque.

Blank Cheques

A drawer gives to a payee a "blank" cheque, that is, the amount of a cheque is kept blank and it is to be filled by a payee. In order to protect himself, a drawer puts on the top, or at the bottom of a cheque the words "Under Rs. 100" or "Not exceeding Rs. 100."

Negotiability

A cheque is a negotiable instrument. It is transferable by delivery, if it is payable to a bearer, and by endorsement and delivery, if it is an "order cheque".

Paying Banker

The duty of a paying bank is to honour a cheque drawn on it by a customer to the extent of the latter's balance in a current account, or to the limit of an agreed overdraft, provided that a (a) cheque is properly and correctly drawn, (b) there are no other circumstances preventing a bank from paying.

A bank will not pay under the following conditions. If (a) a customer countermands payment, (b) a bank is notified about the death or insanity of a customer, (c) a bank is notified about the bankruptcy of a customer, or a bankruptcy petition is made against a customer; a notice of winding-up petition of a company is filed or a resolution of winding up in the case of a registered company is passed, (d) a bank receives information that a customer is an undischarged bankrupt, (e) a bank receives notice of a garnishee or other order, attaching a customer's credit balance, (f) a bank receives a notice of an assignment by a customer of his credit balance, (g) a bank comes to know that a customer is applying funds in breach of a trust, or (h) there is a defect in the title of a person, presenting a cheque.

If payment is refused, a bank assigns reasons for such a refusal in a printed slip, given below, and it returns a cheque to a payee.

.....Bank LTD.

Calcutta,.....1960.

Cheque NoDated.....

RETURNED FOR REASON No.....

1. Effects not yet cleared, please present again.
2. Not arranged for.
3. Payee's endorsement required.
4. Payee's endorsement irregular.
5. Refer to drawer.
6. Drawer's signature differs from specimen filed in books of the bank.
7. Endorsement requires bank's guarantee.
8. Alteration requires full signature of drawer.
9. Cheque is post-dated.
10. Cheque is out-of-date.
11. Amount in words and figures differs.

12. No advice. (Please present again).
13. Payment stopped by the drawer.
14. Endorser's authority to sign required for registration in the bank's book.
15. Full cover not received.
16. Once withdrawn this week, please present next week.
17. Exceeds arrangement.
18. Crossed cheque must be presented through a bank.
19. Payable at.....
20. Cheque is mutilated.

Signed by Accountant.

Collecting Banker

If a bank receives payment for a customer of a crossed cheque, and a customer has defective title to such a cheque, a banker is protected from his liability to a true owner if it collects it in good faith and without negligence. A bank must be able to prove in such circumstances that a cheque is crossed at the time when it is paid it is collected for a customer and it is collected in good faith and without any negligence.

"I Owe You" or I.O.U.

An I. O. U. is only an instrument. It is often confused with a promissory note, which is a negotiable instrument, while the former is not a negotiable instrument.

An I. O. U. is a mere acknowledgment in writing of a debt due from a person who gives it to another to whom it is given. An I. O. U. does not require a stamp, but if it contains a provision that it must be paid on demand or at a future date then it becomes virtually a promissory note and must be stamped. If the words are put in such a way that it becomes a contract to pay, it must be stamped.

I. O. U.

Calcutta, 12th July, 19 .

Mr. J. Sen,

I. O. U.

Twenty Rupees Only
S. C. Bose.

Questions

3. What is a Bill of Exchange? How do you distinguish between a Foreign and Inland Bill? Carefully and in detail explain how a Bill of Exchange may be helpful in the jute trade between Calcutta and Dundee. (B. Com., Cal., 1960).
2. Write notes on "Documentary Bill", "Clean Bill", and "Finance Bill". (B. Com., Cal., 1948).
3. Mention the various processes by which the indebtedness of one country to another can be liquidated. Which is the most approved of these processes? (B. Com., Cal., 1937).
4. State how you would draw a cheque ensuring its payment to no other person than the payee himself. What is the effect of marking a crossed cheque "Not Negotiable". (B. Com., Cal., 1956).
5. What is meant by Negotiable Instrument? (B. Com., Lucknow, 1954).
6. Give the legal definition of a bill of exchange. Mention several advantages attaching to a bill of exchange and show how they are used to finance general trade. (B. Com., Cal., 1949).
7. How do bills of exchange obviate the necessity of sending specie from one country to another? (B. Com., Cal., 1955).
8. Clearly explain the following crossing on cheques:—

(i)

(ii) Lloyds Bank, Ltd.

(iii) & Co.
not Negotiable.

(iv) Bank of India, Ltd.
Credit S. C. Banerjee a/c. Payee only.

- (B. Com., Cal., 1940).
9. Draft a D/P interest bill at three m%^s on H. C. Banerji, Calcutta, for £250 12s. 9d., value. Hardware, shipped by S. Jones & Co., of London on the 9th of March, 1924. Explain the object of this form of draft. Cannot this object be served in any other way? (B. Com., Cal., 1956).
 10. (i) Give the legal definition of 'Bills of Exchange' and by what name are they known?
(ii) Mention several advantages attaching to the use of Bills of Exchange and show how they are used to finance general trade.
 11. A shipment of produce is being made by a firm in London to a firm in Bombay. The terms are cash against documents. Describe (i) what documents are referred to above, (ii) explain in detail how they would reach the Bombay firm. (B. Com., Cal., 1959).

12. What is a Hundi? Distinguish between a Darshani Hundi and a Muddati Hundi. In what respects does a Hundi differ from a Bill of Exchange? Explain how a Hundi, although perfectly negotiable, does not come under Negotiable Instruments Act.
(B. Com., Cal., 1954).
 13. What is a Bill of Exchange? Show clearly how it can facilitate the development of commerce, illustrating with an example from a practical point of view.
(B. Com., Cal., 1961).
 14. Write out, in proper form, a Bill of Exchange drawn by an Exporter in London on an Importer in Calcutta in favour of a merchant in Rangoon.
(B. Com., Cal., 1962).
 15. Explain what is an I. O. U., and a Bankers' Draft.
 16. What is meant by a Cheque? Draw up a specimen of a Crossed Cheque issued by a Calcutta firm on the Calcutta Branch of the Comilla Banking Corporation, Ltd., in favour of a Dacca merchant, or order, and describe the sojourn of the cheque when the Dacca merchant, who has no banking account of his own wants to have the account collected through a friend having account with the Dacca Branch of the Central Bank of India, Ltd.
(B. Com., Cal., 1945).
 17. Write short notes on any four of the following ;
 - (a) Negotiable Instruments ;
 - (b) Produce Exchange ;
 - (c) Excise Duty ;
 - (d) Debenture ;
 - (e) Bonded Warehouse.
(B. Com., Cal., 1945).
 18. Define Bill of Exchange and draw a specimen. In what respects does a cheque differ from other forms of bill of exchange?
(B. Com., Cal., 1948).
 19. State briefly the various methods by which payments for commercial transactions are made in internal as well as international trade.
(B. Com., Cal., 1948).
 20. Write short notes on any four of the following :
 - (a) Under-writing, (b) Negotiable Instruments, (c) Bonded Warehouse, (d) Stock Exchange, (e) Letter of Credit, (f) Clearing House.
(B. Com., Cal., 1947).
 21. Define "Bill of Exchange" and draw a specimen. In what respects does a 'cheque' differ from other forms of Bills of Exchange?
(B. Com., Cal., 1948).
 22. What is a Bill of Exchange? Distinguish between a Bill of Exchange and a cheque.
(B. Com., Cal., 1951).
 23. Define "Bill of Exchange" and draw a specimen. In what respects does a "cheque" differ from other forms of Bill of Exchange?
(B. Com., Cal., 1954).
-

5. What is meant by "Exchange Ratio"? How is it determined and what connection exists between this ratio and the import and export trade of a country? (B. Com., Cal., 1950).
 6. Discuss the chief causes of fluctuation in the Foreign Exchanges. (B. Com., Cal., 1952).
 7. How is the rate of exchange between the currencies of two countries determined? Does such a rate fluctuate? (B. Com., Cal., 1959).
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CHAPTER XXXII

TRANSPORT

General

Transport consists of (a) railways, (b) roads, (c) ocean transport by steamships, (d) water transport, including canals and irrigation channels, and (e) air.

The canal and irrigation channel transport systems are important in view of the predominance of agriculture in the Indian economy.

Development of Transport in India

The means of transport in India were very inadequate up to the middle of the 19th century, when there were no good roads, canals, or any railway system. The Government started to construct railways in India from 1853, when the first Indian railway, namely, the Great Indian Peninsular Railway, extending from Bombay to Kalyan, was built. The first line from Calcutta to Hooghly was started in 1855. Since then the railway system has been extended considerably. Improvements have been effected in inland waterways by steamers and by the construction of navigable canals and rivers. Road transport has been improved by good roads. Air transport is developing in India steadily.

Railways in India

Transport by railways is quick, regular and cheap. Bulky goods can be carried easily over long distances. Passenger traffic is also facilitated by railways.

Railway management in India used to be either (a) State, (b) private, or (c) private management with State guarantee of interest. Owing to various arguments in favour of State Railways, the Government of India now owns nearly all the railways. Since railways are monopolies and public utility concerns, it is proper that they should belong to the State. Profits derived from them should go to the people. In India the State Railways are managed by the Railway Board.

The Government of India has grouped the railways into six zones, namely, the Southern, Western, Central, Northern, Eastern and North-Eastern railways. The route mileages of the Central are 5,400 and of the Western 5,973, compared with 5,999 of the Southern Railways. The Northern, Eastern and North-Eastern Railways consist of 6,000 miles each. The zonal regioning of the country's nationalised railways offers three advantages. First, it permits economies of large-scale management. Secondly, it eliminates duplication of work and unhealthy competition. Thirdly, it paves the way for greater financial stability and improvement of working standards. The change from the old order to the new has been accomplished in phases to avoid any kind of disturbance or dislocation and diminution of efficiency during the transition period. The scope for economy will be increased progressively by the integrated system.

As the Eastern Railway became unwieldy in size, it was later split into two groups, namely, the South Eastern Railway and the Eastern Railway. The route mileage of the Southern Railway is 3,999 and track mileage 5,909. The Eastern Railway has a route mileage of 2,321 and a track mileage of 5,259.

Railway Transport

Railway rates and freights play an important part in the growth of industry and trade. Theoretically, rates and freights should be determined by demand and supply like the value of any other commodity. This would be true if railways were competitive. Owing to economic factors, they are allowed to develop as monopolies. No competitive tracks are allowed to work. So railway rates are not determined by demand and supply. Being a monopoly, railway rates are governed by control and regulations.

After experimenting with several principles, the practice of determining railway freights and rates according to what the traffic will bear has been evolved. Originally, rates were determined according to distance travelled.

Mileage System

The mileage system of rates is unfair as far as long distance is concerned, because costs for long and short distances do not vary so much as to justify proportionately very high rates for the former.

Combination of Mileage System and Terminal Charges

In order to purge the mileage system of its rigours and inequity, it is tempered by an additional charge, called terminal charge. This means that rates are fixed according to distance travelled and charges incurred at the terminus station. The inequity of the previous system continues even then. The principle that all traffic must bear proportionately costs and charges incurred at the destination station becomes very difficult to apply in practice. It is difficult to apportion charges proportionately among goods carried to a particular station, and it is more difficult to do so in anticipation of what should be the cost of maintaining a station.

Charging what the Traffic will Bear

The principle of charging what the traffic will bear is practised for determining railway freights and rates. It is more of a practical expedient than an economic principle for fixing values on the basis of costs. Under the system rates are fixed according to the capacity of those who pay for traffic. Goods are charged freights according to what they can afford to bear and this is found by examining the volume of traffic. For example, a certain freight is fixed upon the carriage of coal from Asansol coal-fields to Calcutta and after some time it is found that the tonnage of coal brought down to Calcutta declines. This indicates that the freight on coal is high and the traffic cannot bear the rate. As freight is ultimately paid by consumers by being passed on into the price, any alteration of the freight reacts on the price. So if the freight of coal is increased, its price goes up, the demand declines. It is therefore said that the high rate the coal traffic cannot bear.

Under this principle the railway authorities aim at maximising revenue and an alteration in rates is made with a view to this end. If railways find that by reducing rates traffic increases, they are cut.

Railway Rates Tribunals

Railway freights in India are high. Trade and industry contend that the rates are high and they discourage traffic. The

Government of India has established Railway Rates Tribunals, consisting of experts and commercial people for regulating freights. If any one feels that Railways charge high rates, he can take the matter to one of the Tribunals which act as an adjudicating body. The Tribunal examines whether the rate is economic or not, and its decision is generally accepted by the Railways.

Railway Advisory Committees

Railways have Advisory Committees, consisting of experts and the public, and their function is to bring to the notice of the railway authorities any inconvenience or disadvantage, and they suggest remedies. They are only advisory bodies.

Kinds of Rates in India

There are three kinds of freights on the Indian Railway system. First, we have got what is called the *class rate*. In order to fix this kind of rates, commodities are grouped into various classes by the Indian Railway Conference Association from time to time. Maximum and minimum rates a maund per mile are laid down for different classes of goods. The maximum rate of any class denotes the ordinary rate a maund per mile without terminal and toll charges. Sometimes class rates are quoted below maximum rates and then they are known as adjusted rates which are found in the Junction rate list. If a rate is quoted for a commodity at a lower figure than its own class rate, the rate must not be lower than a fixed minimum.

The *schedule rate* denotes a rate lower than the maximum of a class. It may be levied uniformly, or it may vary according to either weight or distance. The unit of such a rate is per maund, ton or cwt. Schedule rates are also marked by letters or numbers. They apply either to the entire system or only between certain points.

Thirdly, the *station-to-station rate* denotes a rate applied only between two points—station to station on the same or different railways or station to junction.

A classification of goods is made and freights are charged according to the classification. Goods are divided into ten classes, each class having minimum and maximum rates. The classifica-

tion is based on the value of goods, regularity of despatch, bulk, degree of risk involved in transit and volume of traffic in that type of goods. The railways are free to charge any freight provided it does not exceed the maximum or fall below the minimum fixed for any particular class of goods.

Forwarding Goods by Railways

In transporting goods by Railways, a person must fill a railway form known as a consignment note at the time of delivering the goods to the railways. The consignment note must contain full particulars of goods, including the description, quality, price, names and addresses of consignor and consignee. It must also state whether the freight is paid or is to be paid at destination, and whether the goods are carried at the railway's risk or owner's risk.

The railway has a lien over the goods against freight, wharfage, demurrage, etc.

If goods are not taken delivery of after paying the railway charges, they are sold by public auction, especially if they are perishable goods. In the case of other goods, the railways usually sell them by public auction after 15 days, subject to a notice of the auction being given in local newspapers. Unclaimed goods can be similarly disposed of.

If there is any loss or damage of goods, a notice to that effect must be given to the railways before taking delivery of the goods. No claim for compensation is entertained unless it is made within six months of delivery. Similarly, no refund for any overcharge can be made unless it is claimed within six months of delivery of the goods.

If commodities are despatched at the railway's risk, it is marked R.R. which means that the railway company is responsible for any loss or damage during transit. If they are despatched at owner's risk they are marked O. R., which denotes that the owner is responsible for any loss or damage during transit.

Railway as Carrier

The railways are governed by the Indian Railways Act in respect of rights and liabilities as a common carrier. A railway company is liable for destruction, loss or deterioration of goods

delivered to it for transport. But the liability of a railway is limited only to that portion of the damage or loss which is caused by the misconduct of the railway servants, if goods are consigned under a special contract called a *risk note*. In the case of valuable goods, the railway is not liable for any amount exceeding Rs. 100, if its valuation is not given accurately.

There are various forms of *risk notes*, under which the railways carry goods. These risk notes must be properly executed and signed by the consignor or his agent. The various forms of *risk notes* are as follows:

1. Form A.—This kind of note is executed in respect of goods which are either in a bad condition or badly packed. Under this contract there is no liability of the railways irrespective of how the goods are delivered. The liability remains, if the damage or loss is due to delay, disappearance or theft.

2. Form B.—This type of note is used for the despatch of goods at the owner's risk. Merchants often prefer to send goods in this way as the freight is low. But the railways company must be able to show and explain fully how the goods have been dealt with if they are not delivered or if they are lost by theft.

3. Form C.—If goods are sent in open wagons at the request of the consignor, this Form C risk note is used.

4. Form D.—Explosives or dangerous goods are sent under this form at owner's risk, and the liability of the railway company is reduced.

5. Form E.—This is used for booking animals of declared value.

6. Form F.—It is used for booking animals in cattle trucks, and the liability of the railway is limited to Rs. 50 per head.

7. Form G.—This is an alternative to Form D.

8. Form H.—It is an alternative to Form B, and is utilised if the consignor wants a general agreement instead of a separate risk note for each of the consignments.

9. Form X.—It is used for scheduled articles exceeding Rs. 100 and for which no extra percentage freight is charged. In such a contract there is no liability for the criminal act of the servants.

10. Form Y.—This is an alternative to Form X and is used if the sender of the goods wants a general agreement.

Railway Clearing House

The Railway Clearing House is established to overcome the difficulties of through traffic over more than one line. It ensures that each line gets its share of the price which is paid for traffic over two lines. If traffic is carried over two lines, one ticket is issued. Later receipts of all lines are adjusted in the Clearing House. It keeps a complicated system of accounts, and the receipts and spendings of each railway are adjusted. If there is a balance in favour of a line it is given a credit, while in the case of a debit it is debited with the amount. So the Clearing House facilitates through traffic over different lines. Allowances are made for the use of other companies' wagons.

The Clearing House organisation gives an opportunity to all companies for meeting together and enabling them to formulate common policies.

Advantages of Railways

Railways are expensive to maintain and run as they maintain their own tracks and establishments but rates are kept within reasonable limits. Railways are allowed to develop as monopolies, so regulations and restrictions are imposed upon the railways by Governments. Railway transport has many advantages. The service is more certain and regular than other forms of transport. Railway charges are moderate. Service on railways is regular, uniform and quick. It is a safe mode of transport and large quantities can be transported without difficulty.

Road Transport

The road transport occupies an important place in the economic system. In India the road transport is done by bullock carts and similar such contrivances. The motor transport is now growing in India and offers great possibilities for expansion. The road transport possesses some advantages, especially against the railway transport. It is less expensive than railways, as the latter have to maintain costly tracks and bear many standing charges in connection with station upkeep and other things. The motor transport is convenient for merchants and traders, as it can meet their requirements without difficulty. As road transport has no

particular time nor route, a motor vehicle may be hired to run any time and on any road. In road transport cargo may be loaded directly from a factory and unloaded near a primary consumer, so the road transport facilitates house-to-house delivery. The advantages are conspicuous, especially in the case of commodities, such as vegetables, flowers and fresh fruits which cannot stand much handling. Road transport is advantageous over short distances.

Road transport loses its advantages, if the distance is long. For long distances road transport is more expensive, as petrol and running charges are high. It is inconvenient, as in a motor vehicle there must be at least two men, who have got to be lodged and fed. Chances of breakdowns are common over long distance travels, and motor transport cannot be relied upon for regularity.

In the case of bulky commodities, railways are preferable to road transport.

Road Transport in India

Roads in India are constructed by the Government or public bodies, and their maintenance is paid for by bodies, such as the Public Works Department, Local Boards, Municipalities, Military Department, etc. Those who use roads have little to spend on their construction or maintenance. The public contribute taxes to local bodies which are in charge of roads. The Government has imposed a road cess which is paid by vehicles using roads and the road cess is used for making roads. Motor vehicles pay taxes for using roads.

India has scope for the development of road transport which is convenient for linking the rural economy with cities.

Kinds of Road Transport

Motor vehicle is an important form of road transport. Other road carriers include carts, mules, horses, etc.

Advantages and Disadvantages of Road Transport

The users of roads incur little expenses for the maintenance of tracks. Road transport is convenient, as routes and time can be adjusted to individual requirements. Goods which are brittle

and cannot stand much handling may be conveniently carried by roads. In road transport it is possible to take delivery directly from the door of a consignor to a consignee. Road transport does not come within the definition of a common carrier, so it can choose its own freight. It is cheaper than railways, as return loads are available in the case of the former. It is less reliable than railways owing to chances of breakdowns. It is less uniform and punctual than a railway. In some areas roads become unfit for use during certain periods of year, for example, during the rainy season. It is less safe than a railway.

Features of India's Road System

There are four great Trunk Roads, stretching across India and subsidiary roads are connected with them. The Grand Trunk Road runs from Khyber to Calcutta, the other three stretch from Calcutta to Madras, Madras to Bombay, and from Bombay to Delhi.

Rail-Road Controversy

Road transport is popular and competes with railways. The rivalry between the two systems of transport has resulted in rate cutting.

The controversy centres on the two systems of transport. The railways maintain that they cannot compete with road transport, as the latter is placed in a privileged position. It is contended that the railways have to maintain large tracks at their own cost, while motor vehicles do not pay full, if any at all, charges of road maintenance, which is met from the public funds.

As roads compete with the railways, it can be taken for granted that in certain cases roads are more efficient and advantageous than the railways. Any move to eradicate road transport by artificial measures, unrelated to economic factors, cannot be supported. It is not fair to eliminate competition by virtual prohibition of road transport by a system that motor vehicles in passing from one district to another have to obtain permission of the district authorities concerned, as such permission is more often than not refused. The problem should be tackled considering economic factors. In countries of the West, the railroad controversy has been met by adopting a co-ordinated transport policy on rational lines.

Both the systems of transport have distinctive merits, and it is no use setting up an unholy monopoly by curbing one type of transport artificially. The remedy lies in rationalising the transport system. Each system should be allowed to remain where it is economic. Road transport should be allowed in the case of short distance traffic, especially, for the carriage of fresh fruits and flowers. Railways should be utilised for bulky goods and long distance travels.

There are many places where roads act as feeders to the railways. In India there are many areas which are not connected by the railways directly; such places are connected with the railways by roads. Roads act as connecting links between many areas and the railways, e.g., the route to Shillong from Calcutta. The railways run up to Gauhati, and from there we have a motor vehicle route to Shillong. If roads and the railways are complementary, the former help railway traffic. India offers opportunities for developing this type of feeder roads. Many rural areas have no means of transport and they can be easily turned into profitable economic regions if they are connected with the railways by roads.

In India there is scope for both systems of transport. If a rational transport policy is adopted, both the systems can be made to grow without competing with each other. Steps should be taken to plan transport development in such a way that roads and railways make progress not along competitive lines but as complementary systems. A co-ordinated transport programme is required.

Transport by Canals and Rivers

The inland waterways consist of transport by rivers and canals which do not include sea canal, such as the Suez on which ply ocean-going vessels. The inland waterways have certain advantages. Transport by inland waterways is convenient, as loading and unloading can be made near the place of transshipment. It is cheap and can be adjusted according to individual requirements. It is slow and large vessels cannot pass through small canals. In India the majority of the routes remain unworkable throughout the greater part of the year owing to the silting up of the river beds. Routes are not uniform, so it is inconvenient.

The inland waterways transport is made by steam boats, motor boats, barges, country boats, etc.

India's Inland Waterways

There are nearly 26,000 miles of navigable waterways in northern India. The Indus, Ganges and Brahmaputra are navigable almost throughout the year. Their tributaries are also navigable to a considerable extent.

There are many rivers in India which are not navigable because of irregular currents. There are (along the coast) several navigable small rivers, creeks and backwaters. There are other inland navigation facilities over small rivers, and they are generally confined to the deltas and valleys of great rivers.

Inland navigation suffers unfair competition from the railways. In India canals are developed for navigation, irrigation or both. Among navigable canals, the Ganges canal and the Buckingham canal are notable. There are many irrigation canals. The possibility of connecting the river systems with canals is attractive in some parts of West Bengal, Orissa, and Madras. There is scope for the development of inland waterways. Planned inland waterways development will help relieve congestion of traffic on the railway system.

Tolls and rates on inland waterways are fixed according to goods which are transported. In fixing them the authorities follow the principle of "what the traffic will bear". Maximum rates are charged for the carriage of goods.

Ocean Transport: Liner and Tramp

There are two kinds of ocean-going vessels, namely, (a) *liners* and (b) *tramps*. Liners run according to fixed schedules. Their sailings are fixed at regular time and routes, and they are uniform. They sail regularly. Liners carry mail, passenger and cargo. Tramps carry only cargo. They have no fixed time to sail, nor any fixed route to go. They do not sail unless they get full cargo. If a person charters a tramp, he must pay the full freight for the boat, including the freight for the unoccupied place which is called "dead freight". There is a class of liners called *cargo liner* which carries cargo and passengers. Liners are owned and controlled by big steamship companies, while tramps can be owned by a single

individual or a small company. As tramps are many, there is keen competition among them. As tramps carry cargoes and are prepared to go any time anywhere, they undercut liners for freight. Bulk traffic is therefore controlled by tramps, while liners control freight for small consignments. It is profitable if liners work on different lines. Liners make forward contracts but tramps do not.

Control of Shipping

Ocean shipping is generally regulated by the Government and non-official bodies. There are Government regulations about registration of vessels and measurement. There is Government control over pilotage, wireless equipment, collisions at sea, shipping casualties, etc.

The measurement of a vessel is governed by tonnage and cubic space available. Vessels are measured by tonnage. Gross tonnage denotes the entire space of a ship while net tonnage is found after deducting from gross tonnage the space occupied by engine, crew and other accessories of a vessel.

A sea-going vessel is given a load-line which is called *Plimsoll Mark*. It indicates the depth up to which a ship can sink. There are many load-lines which vary for different seas, as it is stated that immersion of a vessel depends upon the salinity of water. It is high in the Indian ocean during summer and low in the North Atlantic during winter.

Lloyd's Registry of British and Foreign Shipping

Lloyd's is important in marine insurance. Lloyd's coffee-house was a famous meeting place for marine insurers and provided them with up-to-date and detailed information about sea-going vessels. Lloyd's printed the "*Lloyds List*" of ships in 1730. Lloyd's list gave details about British vessels. A rival list, giving information about non-British ships was started. The two lists were amalgamated into *Lloyd's Register of British and Foreign Shipping* in 1833. It is an encyclopaedia of shipping. It classifies ships, controls their designs and construction, specifies the materials to be used in building a vessel. Lloyd's Register classifies ships by "*hull*" and "*equipment*". In order to be enlisted in Lloyd's Register, a vessel must be built according to the classi-

fication, design and approval of the Committee of Lloyd's which is in charge of compiling Lloyd's Register. It is an expert committee, consisting of technical experts, engineers, etc. So it is expected that ships of Lloyd's Register are reasonably good. The shipping companies like to abide by Lloyd's specifications for placing a ship on this Register, otherwise difficulties arise in respect of insurance and other things. Ships which fulfil conditions of Lloyd's about hull and equipment are classed as first class under "*Al at Lloyd's*".

Rates and Freights

Owing to competition from the tramps, the liners combined and fixed rates. They organised their first conference in 1875 and agreed to charge uniform and equal rates for each port from which their ships sailed. They abandoned all preferential rates. It is called the "conference system".

The system has had little success. So another system called the "deferred rebate system" was formulated. In this system a merchant who used a particular line for a fixed period was entitled to a rebate on rates which were paid. The rebate was paid if loyalty of a shipper was proved. The system worked well but it was legally prohibited in some countries, including the United States because it created a monopoly.

The third system was, therefore, introduced and it is called the "agreement system". Under it shippers and a steamship company enter into a contract by which shippers agree to give their traffic to a line if the latter agrees to maintain regular services, steady rates and adequate tonnage. The rate which is paid is the net rate and there is no locking up of funds with a liner company as in the deferred rebate system. It ensures loyalty of shippers to a steamship company and guarantees efficient service of the latter. This kind of agreement exists between Governments and liner companies for the carriage of mails.

Indian Shipping

India is trying to build an ambitious ship-building industry as well as an extensive mercantile marine. Indian ships face difficulties in competing with foreign ones. Indian companies are

under-cut in rates ; they cannot come fully within the Conference system. The deferred rebate and special rate-fixing systems operate against them. Marine insurance companies discriminate against Indian bottoms.

The Government of India is encouraging shipping by financial and fiscal assistance.

Transport by Air

Air transport is quick but expensive. So the commercial uses of air have not yet become common. At present air transport is concerned mainly with passenger traffic and mails. There is no road or track for air transport. What is required is to construct aerodromes which are used by aeroplanes for taking off and landing. The capital expenses and maintenance charges of airways are high, so air rates are expensive. Aviation has been nationalised in India, except for a limited traffic.

Law of Carriage

There are two kinds of carriers, namely, *common* and *private* carriers. A common carrier denotes a person, or a body of persons who are engaged in carrying goods from place to place for hire by land and inland navigation for all who employ him. He is liable like an insurer of goods. Owners of carriages, motor lorries, steamers, and railways come within this category. A private carrier is a person who transports goods or passengers occasionally or under special circumstances. Private carriers are governed by the law of contract.

Duties and liabilities of a common carrier are as follows, unless they are otherwise governed by special contracts. Their duties are: (a) to carry goods of all who are prepared to pay their charges, (b) to carry goods by the usual route without unnecessary deviation or delay, (c) to deliver goods to a consignor at a place which is expressly mentioned by a consignee. Their rights are: (a) he can refuse to take goods if they do not come within the class which he professes to carry, or if there is no accommodation, (b) may refuse dangerous goods, (c) can claim freight for carriage and can detain goods until they are delivered to a consignee.

The liability of a common carrier is governed by the Common Law and the Common Carriers Act. His liability as an insurer is governed by the Common Law of England. He is liable for loss or damage to goods which are entrusted to him for safe carriage. His liability ceases if a loss is caused by (a) an act of God which is beyond human control, (b) an act of King's enemies, *i.e.*, acts of foreign enemies, (c) inherent defects of goods and (d) negligence of a sender. His liability has been further modified by the Common Carriers Act of 1865 in the case of some scheduled articles. A common carrier is not liable for the loss of a commodity if the value exceeds Rs. 100 and if it belongs to a scheduled group, unless the value and description are declared by a consignor. Gold, silver, precious stones, etc., are included in scheduled articles. In the case of such goods his liability is limited. He can charge a higher rate for carrying valuable goods. His liability in the case of non-scheduled goods may be limited by special contracts. He is liable for loss or damage which is caused by criminal acts or negligence. The law is that before instituting a suit against him for loss or damage a written notice of such a loss or damage must be given within six months of one's knowledge about the same. Railways and steamer companies limit their liabilities as common carriers by means of special contracts.

Questions

1. Describe the rise and progress of mechanical transport in India.
(M.A., Com., Cal., 1956).
2. A modern country enjoys three main kinds of transport, *viz.*, by road, rail and water. Outline the chief economic characteristics of each, grouping your reply around three main points, *viz.*, nature of ownership, control and methods of operation. (M.A., Com., Cal., 1960).
3. What are the liabilities of a Common Carrier?
4. Discuss the controversy between Road and Railway.
5. Describe the different ways of fixing shipping rates.
6. Describe how the fixing of railway rates passed through several stages. Discuss the advantages of a Railway Clearing House.
7. Outline a plan for developing and co-ordinating the rail-road-river transport of India with a view to helping the business activities of the country.
(M.A., Com., Cal., 1943).
8. Examine the principal features and the comparative advantages and disadvantages of Railway, Road, Motor and Steamer transport.
(B. Com., Cal., 1948).

9. Explain the principal features and the comparative advantages and disadvantages of Railway, Road, Motor and Steamer transport.
(B. Com., Cal., 1948).
 10. Explain how railway rates are determined and examine the influence of Cost of Service in fixing the same.
(B. Com., Cal., 1949).
 11. Write short notes on any five of the following:—
(a) T.T. (b) Contango. (c) D.D. (d) Bull and bears. (e) Bank-rate.
(f) Money market. (g) Consignment. (h) 'What the traffic will bear'.
(B. Com., Cal., 1958).
 12. Write a short essay on the problem of increasing competition between Railway and Road Transport in India.
(B. Com., Cal., 1959).
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CHAPTER XXXIII

INSURANCE

Definition

Insurance is made by a contract in the form of a policy between an insurer and an insured. The former undertakes to indemnify the latter against a loss, arising from a contingency (mentioned in the policy) in exchange for money, called premium (paid by an insured to an insurer). In the case of a life insurance policy, an insurer unlike other types of insurance, undertakes to pay to an insured a specified sum of money after a fixed period or to pay the sum to his assignee on death of the insured. Although life insurance is called “assurance”, people use the term “insurance” for all kinds of insurance.

Insurance is helpful. The economic system carries many risks which can be guarded against by means of insurance.

Marine Insurance

Insurance originated in the marine field and a marine insurance policy is a contract of indemnity, which obliges an insurer to indemnify an insured against marine losses according to policy conditions.

Lloyd's

A marine insurance contract can be given to an insured either by a company, or by private individuals, belonging to Lloyd's. Lloyd's is an important body for marine insurance, and the bulk of marine insurance business is underwritten by Lloyd's. Lloyd's is not only the pioneer but it leads in marine insurance.

Lloyd's is an incorporated society, consisting of several members. As a corporate body, Lloyd's does not undertake any insurance business. Its members underwrite insurance business, and the society is not liable for member's obligations. In order to maintain integrity and goodwill of members, Lloyd's at the time of taking a member pays particular attention to his financial

position and insists upon a big deposit security. Lloyd's does many useful functions of maritime interest. It furnishes up-to-date information about vessels, cargo, captain, etc. Having its agents all over the world Lloyd's can ascertain the exact destination of sea-going vessels. Lloyd's provides an underwriter of marine risks with all necessary information. A marine insurance underwriter must obtain full information before assessing a marine risk and fixing premiums. All maritime information is given in the Lloyd's list which is published daily.

Lloyd's Register of Shipping

In rating a maritime risk, information about a vessel is necessary. The degree of risk varies according to the sea-worthiness of a vessel. The Lloyd's Register of British and Foreign Shipping contains encyclopaedic information about vessels. The Register is compiled by a Committee which is distinct from the incorporated association of Lloyd's and it is conducted by ship-owners, merchants, underwriters, marine engineers, etc.

Lloyd's Register of Shipping and the British Corporation Register of Shipping and Aircraft co-operate for providing full information about various risks.

Marine Insurance Companies

Companies obtain their business through agents who are authorised to underwrite risks within prescribed limits, and companies are bound by the agents' action. Marine insurance companies work in co-operation with Lloyd's. The former refer to Lloyd's Register for obtaining necessary information.

Broker

The importance of a broker or an agent in marine insurance is great. The majority of insurance is done through brokers.

If a broker gets an offer from a client, he prepares the details of the insurance on a slip of paper. It is called the "original slip". Later a broker sends the original slip to marine insurers. If an underwriter is willing he puts his rate on the slip and indicates the amount which he is willing to underwrite. If the amount is large, the slip may be taken to several underwriters,

each insuring a portion of the amount. The original slip has no legal value. Brokers and insurers may issue "cover notes" or "open covers" to insure an object temporarily. Later it is legally covered by means of an insurance policy. Although cover notes are not legally binding, insurers honour them. An insurance policy must be stamped and countersigned.

If a broker has full information about an insurance from a client, he prepares a final slip called a "closing slip", or "forward or definite", containing details of a proposed insurance and he passes it on to an insurance company. A company prepares a policy upon the basis of the slip. In the case of Lloyd's underwriters, a broker does not pass the slip on to an underwriter as he prepares a policy himself and sends it to the Lloyd's Signing Bureau for execution. So a broker is important for a Lloyd's underwriter.

Hull and Cargo Insurance

Three things are mainly insured by a marine policy, namely, hull (*viz.*, a vessel), cargo and freight.

In the case of a hull insurance the full value of a vessel is not covered by a policy deliberately by an insurer, who wants an insured to bear a portion of the risk. This is done to ensure honesty of a vessel owner. The condition of a vessel and its value are obtained either from Lloyd's Register, or similar documents. An owner may have the temptation to over-insure a vessel. Later he may manipulate for a claim. This can be checked, if he is made to bear a portion of the loss.

A cargo insurance covers the full value of the goods whose ownership may change if they are despatched. So a consignor has little interest in over-insurance of goods. An underwriter has to depend on an insured for obtaining the correct value of cargo.

Lloyds and Company's Policies

A Lloyd's policy is countersigned by many underwriters of Lloyd's, each underwriting a portion of the risk. If a claim arises, each insurer pays it on a *pro rata* basis. The amount covered by each underwriter is mentioned by him under his signature. Although risks covered by many underwriters form the

total value of a policy, each is responsible for the amount which he underwrites. There is no joint responsibility of insurers. If an insurer defaults to pay, an insured will have to realise the amount from the defaulting underwriter. Separate risk-taking by many underwriters on a single policy is an advantage as well as a disadvantage. By distributing the risk among underwriters it is possible to insure a big risk without difficulty. In the case of a claim, money is realised quickly as each underwriter pays a portion of the full insured value. Default is unknown, as Lloyd's underwriters have very good reputation. The financial position and integrity of the members is high. An assured is not required to approach any individual underwriter, as insurance is arranged by brokers.

An insurance company generally underwrites the full value of a policy. It does not become a part underwriter under normal circumstances. An insurance company also does not remain on a big risk alone. It spreads a risk, by reinsuring a portion of a full risk with other companies. Although an assured obtains a policy from a company, covering an entire risk, and the company pays the full claim, the company recovers a substantial portion of the claim from other companies which take re-insurance on a *pro rata* basis.

Warranty

A condition of an insurance contract is called a warranty. A marine insurance contract is based on warranties, express and implied. Some conditions of a contract are clearly mentioned but two conditions will be deemed to hold good, whether they are mentioned or implied. In the first place, a vessel must be seaworthy. Before a vessel starts either from the original port of embarkation or from any intermediate port, it must be certified by the Port authorities as fit to undertake a voyage. Secondly, a vessel must be used for a lawful purpose. No insurance policy is considered valid, if a vessel is used for smuggled goods or other unlawful purposes.

Types of Policies

Various types of marine insurance policies are important. (1) In a *voyage policy*, an object is insured for a specified voyage, while in a (2) *time policy*, it is insured for a specified period.

(3) A *mixed policy* is a combination of the above two policies, viz., an object is insured for a specified period and a voyage. (4) In a valued policy the value of the object is mentioned. (5) In an *unvalued or open policy*, a value is not mentioned. (6) In a *floating policy*, no mention is made of a particular vessel; the policy is applied to any ship which is declared for a specified voyage. (7) An *open cover* insures goods. This type of an insurance contract is obligatory on an insurer in honour only but it is not binding legally. An insurer in such an event undertakes to issue regular policies for an amount not exceeding a specified sum in each vessel, the latter being scheduled to sail before a fixed date. Premiums are fixed beforehand or they are adjusted later. (8) *Construction Builders' Risks policies* are issued for a period exceeding a year and they cover risks of vessels during period of construction. (9) *Fleet policies* are issued in one policy, covering an entire fleet of liners belonging to one owner. (10) *Composite policies* denote a policy which is underwritten by more than one insurance company, but the liability of each insurer is separate and distinct. (11) *Port Risk policy* is issued to cover the risk of a vessel if it is in a port during a certain period.

Marine Insurance Policy

A marine insurance policy is prepared to suit an individual case, so there are various clauses in marine insurance policies. Some of these clauses are common to all policies, while others are attached to policies in special cases. Some clauses are discussed below.

Lost or Not Lost

The "lost or not lost" clause is attached to a policy and it means that an insurer undertakes to make good a loss in the case of a vessel which is lost, irrespective of the fact that a vessel is lost prior to the issue of a policy, provided that an insured is not aware of the loss.

Sue and Labour Clause

The "sue and labour clause" denotes that an insured or his authorised agents are entitled to take steps for the preservation

because of a marine peril. For example, a few tins of biscuits are sent in a vessel. Of those some tins are damaged by seawater. This is an example of a particular average, i.e., a loss which is special to a cargo and it must be paid by an insurer who insures it.

In order to safeguard the interests of marine insurance underwriters, policies carry a F.P.A. clause and the "free of particular average" clause states that no liability attaches to an insurer for a particular loss to a cargo, if a vessel is stranded. The clause does not give adequate protection to an insured, so a "F.P.A." clause is modified by stating that no particular average will be compensated for, unless the value exceeds the sum assured by a certain percentage. This is done to prevent flimsy claims. A memorandum attached to a policy states in details the liability of an insurer in averages of all kinds.

York-Antwerp Rules

The adjustment of a general average is governed by the law in a country of destination of a vessel. As the laws vary in different countries, adjustments of a general average cause discontent. In order to obtain a uniform adjustment of a general average, a code of rules was voluntarily accepted by nearly all marine insurance underwriters. The first code, known as York-Antwerp Rules, was framed in 1890 after holding Congresses in London, York, Bremen, Antwerp and Liverpool. Later, the rules were revised in Stockholm, the latest York-Antwerp Rules being framed in 1924. The rules are incorporated in every marine insurance contract for the adjustment of a general average.

Average Adjustment

The statement of a claim may be prepared by an insurer, assured or a broker. If a claim is complicated, it is referred to an *average adjuster* for settlement. He is an impartial and independent person who settles a claim in an equitable way.

Letter of Subrogation

A letter of subrogation is a stamped document which is demanded by insurers from an insured in the case of a total loss or partial loss in which a part of an insured object remains to be recovered, or if an assured has rights of recovery against a third

party. The objects of such a letter are (a) to transfer rights of an assured arising out of a loss, (b) transfer an assured's right to the title of goods insured to an insurer in the case of a total loss, (c) authorise an insurer to proceed against a third party on behalf of an assured, and take a guarantee from a third party to pay an insurer expenses caused thereby, and (d) stress the importance of the responsibilities of an assured to an insurer.

Assignment

Marine policies are assignable. Cargo policies are freely assignable as goods are constantly bought and sold, so rights in a policy covering goods should be easily assignable in favour of a buyer. Cargo policies are assigned blank. An assignor puts a blank endorsement by simply signing at the back of a policy. So policy money becomes payable to a holder. Endorsements on hull policies are more specific and state the name of a party in whose favour a policy is assigned. This is also necessary, as assignments of hull policies must be done with the previous permission of an insurer in writing. The change of ownership or control of a vessel can be made only on a written permission of an underwriter.

Causa Proxima

In order to make an underwriter liable for a loss in marine insurance a loss must arise not only from a peril insured against but that a peril must also be the immediate or proximate cause of a loss. It must not be caused by misconduct or fault of an assured. For example, a ship knocks against a hidden rock, is damaged and later it goes into a port of repair. During repairs cargoes of biscuits are loaded and unloaded, and in the process they are damaged. Although the damage to biscuits is indirectly due to the damage to a vessel, the proximate cause is the rough handling of biscuits, so an insurer of biscuits is not liable. The principle was decided in the case of *Pink v. Fleming*.

Life Insurance

Life insurance is a cooperative plan by which a number of individuals join, club together their money, and cover the risk of life.

A life insurance policy is not a contract of indemnity as in the case of a fire or marine insurance policy. In life insurance, the event insured against must happen one day, while in the case

of marine and fire insurance a contingency may or may not happen. In a life insurance contract, an insurer agrees to pay a certain sum either to an insured after a stated period or to his assignee on death, if it occurs earlier. Premiums paid in life insurance are returned to an insured or his beneficiary one day, while in other types of insurance no consideration is paid so long as a risk does not happen.

Kinds of Offices

A life insurance company may be either *mutual*, *proprietary* or owned by the Government as in the case of India. A mutual company is owned by policyholders, who are entitled to the entire profit, while a proprietary or joint-stock company belongs to the shareholders. It is the practice of the latter companies to share profits with the policyholders. The State Life Office also pays bonus on policies.

Forms of Policies

Life insurance policies are either an *endowment* or a *whole life policy*. There are other kinds of policies also. In an endowment policy, an insurer undertakes to pay to an insured a specified sum of money after a certain period or to his assignee in the event of earlier death. Under a whole life policy, the sum assured is payable on the death of an insured. In both cases, periods during which premiums are payable are laid down in a policy contract.

A policy may be effected upon the joint lives of two or more persons so that in the event of the death of any of the persons insured, policy money becomes payable to survivors. This kind of policy is known as a *joint life policy*.

There are different kinds of policies issued in connection with children. They are called *policies on children's lives*. A policy may be issued which is payable to a child after a certain period either for education or marriage. If the policy covers any risk the latter is the risk on a guardian's life. If a guardian dies, no further premium is payable. If a child dies, an insurance policy is transferred to another child or the premiums are refunded with or without interest. Another kind of child insurance is that a policy is taken on the life of a child, and the latter can continue the policy at a reduced premium after attaining maturity.

Calculation of Premiums

The calculation of life insurance premiums is done on a scientific basis by actuaries.

Life insurance is a cooperative scheme. A policyholder is asked to pay premiums in proportion to his age and prospects of life, and they are calculated on the basis of mortality tables. Premiums are adjusted in such a way that survivors pay rateably for the unfortunate few who die earlier. As it is not possible to say who will die earlier, all are asked to pay equal rates at the same age. Mortality tables are based on the theory of probabilities. After close observation mortality tables have been framed, and they give nearly precise clues as to how many are likely to die at particular ages from a mass of persons of the same age. Premiums consist of two parts, namely (a) *pure or net* and (b) *loaded premiums*. A net premium denotes an annual sum paid by a number of persons of a certain age, which being accumulated at a certain rate of compound interest becomes equal to a sum of money paid on death, while loaded premiums contain additional payments to cover agent's commission, office expenses, etc. and they are added to the net premium.

Suppose 10,000 lives take out policies each for Rs. 100; they are aged 40. 1,500 die between ages 40 and 41. Out of the remainder further 1,360 die between ages 41 and 52. Again further 1,214 die between ages 42 and 43. So during the three years a company is asked to pay a claim amounting to Rs. 4,07,400. Suppose that a company does not earn interest nor profit, nor does it incur a loss, so it must have Rs. 4,07,400 at the beginning. As everybody must contribute equally to it, each is asked to pay Rs. 40.74 at the beginning.

If a company takes Rs. 40.74 from everybody at the beginning, it gets a fund of Rs. 4,07,400, out of which it pays Rs. 15,000, Rs. 13,600 and Rs. 12,140 in the first, second and third year, respectively. The company does not keep the money idle for three years. It invests it and earns interest. So in order to cover the risk based on a mortality table, it is not necessary to take Rs. 40.74 from everybody but an amount less than this, i.e., Rs. 40.74 minus the probable interest yield. So interest enters in the calculation of premiums.

After considering risk and interest the premium includes office expenses. If profits are to be given to policyholders additional premiums are charged. In calculating the final premium the net premium has to be loaded with interest and provisions for expenses and profits. So premiums consist of (a) mortality risk, (b) interest, (c) expenses and (d) profits. Office expenses may be of two kinds, namely, (a) *initial expenses*, consisting of medical fees, policy stamp, agent's commission, office expenses, and (b) *recurring expenses* are composed of agent's commission on renewals and recurring office costs.

Mortality Tables

The important fact in life assurance is the discovery of a fixed scale of mortality which is made from observation of ages of human beings. The observations are compiled in mortality tables, which give a clue to the probable deaths which are likely to occur at certain age groups. The first mortality table is found in the Northampton Table, compiled from Registers in the parish of All Saints, Northampton, during 1735 to 1870. It was followed by the Carlisle Table, compiled from observations of the parishes of St. Mary and St. Cuthbert in Carlisle in 1780-87. Later, the Equitable Assurance Society founded a table from observation of its policyholders. Another table was made in 1835 from the experience of 83,905 policies of seventeen insurance companies, and it is called the Seventeen Offices Table. The English tables were compiled in 1843 and 1884 from the records of the Register-General of England and Wales. Later, more scientific tables were framed by the Institute of Actuaries, an association devoted to study and research of insurance. The Healthy Males Table is called Hm. Table, and Healthy Females Table Hf. Table. Healthy Males Table, excluding the first five years of assurance as Mm⁵, have been scientifically made to give guidance in life assurance business. The latest table is the Om Table, compiled from the experience of assured lives of the British Offices. As this table does not apply fully in the case of Indian lives, modifications are made for applying it in India. The former Oriental Government Security Life Assurance Company Ltd. of India compiled a mortality table which is based upon the experience of lives assured in India.

FORM OF ASSIGNMENT OF ENDOWMENT OR SPECIAL WHOLE LIFE POLICIES

(OUT OF NATURAL LOVE AND AFFECTION)

I.....
in consideration of natural love and affection do hereby assign the benefit of
all moneys to become payable under the within written Policy of Assurance
No.....of the.....MUTUAL ASSURANCE COMPANY, LIMITED,
on my life assuring the sum of Rupees.....to my
wife.....aged.....years, daughter of
.....residing.....
and declare that her receipt shall be sufficient discharge to the Company
for the same *provided*, however, that in the event of my said wife
predeceasing me, or in the event of my surviving the date on which the
said Policy would mature, the benefit of the Policy and the right to
receive moneys thereunder shall revert to me as if this assignment had
not been made.

Dated.....this.....day of.....19.....

.....
(Signature of Life Assured.).

Witnesses:—

1. Signature.....
Name.....
Designation.....
Address.....
2. Signature.....
Name.....
Designation.....
Address.....

NOMINATION FORM

I (full name) the assured under the within written
policy hereby nominate my (state relationship and full
name) as the person to whom the money secured under
this policy shall be payable in the event of my death
and I request that the Mutual Assurance
Company, Limited shall register this my nomination
and show a written acknowledgment thereof hereon
in accordance with Sec. 39 (3) of the Insurance Act
of 1938.

THIS FORM IS
INOPERATIVE UN-
LESS ENDORSED
ON THE POLICY.

Dated at.....this.....19.....

(full signature)

Witness:—

Signature.....
Name.....
Occupation.....
Address.....

Assignment

A policy may be assigned on the following grounds, namely, (a) friendship, (b) love and affection, (c) money, and (d) agreement by which an assignor benefits from the activity of an assignee. Assignment must be in writing which is made either on a separate piece of paper or on the back of a policy. A notice for it must be given to a company which, on request, registers an assignment and informs an assignee about it. On assignment a policy must be transferred to an assignee. A policy may be wholly assigned, or a mortgage or lien may be placed on a policy for a specified amount. Assignment is irrevocable. The Indian Insurance Act allows nomination—a policy may be nominated in favour of anybody but such nomination can be cancelled any time by a nominator.

Valuation

In order to find the financial position of a life insurance company, a technical procedure is employed to examine the liabilities and assets, and it is called a valuation. A valuation may be made periodically. Quinquennial or triennial valuations are generally made by insurance companies. Valuation is made by an actuary (a) to find as to what extent, during a period under review, the actual rate of (i) mortality, (ii) net interest yield, and (iii) office expenses exceed or fall short of the rates provided for at the time of the previous valuation, (b) to ascertain the reserve which, with future premiums accumulated, must be adequate to meet future claims as they fall due, to meet future expenses and to make profits, if possible, (c) to distribute any surplus left to the policyholders and shareholders. If there is a deficiency, the actuary will make suitable recommendations for putting the company in order. The rate of interest adopted for valuation varies between 3 and $1\frac{1}{2}$ per cent. The lower the interest rate, the sounder is the basis of valuation.

A surplus denotes the excess over what is provided for in the previous valuation for mortality, interest and expenses. Which portion of the surplus will be transferred to profits is decided by the actuary.

State Life Insurance

The Government of India has taken over the business of life insurance from private enterprise, and manages it through the Life Insurance Corporation of India.

As life insurance grows on public confidence induced by security as well as service it is hoped that steps will be taken to maintain sales promotion service for encouraging insurance. More important is the attention to be given towards maintaining first class service to policyholders.

Life Insurance Investment

The provision that 50 per cent. of the Corporation's investment resources should be reserved for "Government and approved" securities, is undoubtedly sound. In the insurance business, security must be the first criterion and the regulation is obviously designed to serve that end. The apportioning of the remaining half of the Corporation's resources between "approved investments" and "other investments" calls for closer examination. In the Insurance Act, the definition of "approved" investments is fairly wide, and includes good quality equity shares—the "blue chips" about which so much has been heard lately. "Other investments" include not only the ordinary shares of public companies, but also shares of private limited companies. This means that 50 per cent of the resources of the Life Insurance Corporation will in future be available for the purchase of the ordinary shares. When this fact is considered with the modification which permits the holding of shares of particular companies beyond the former maximum of 10 per cent to a new maximum of 30 per cent—which can be extended in a particular case—the social bias of the new policy is seen. It is clear that there will be considerable scope in future for the Life Insurance Corporation to become the largest single shareholder of a company, a fact which inevitably involves some responsibility for management, even if it is restricted to interference when things go wrong. Whether the Corporation likes it or not, it is going to find itself increasingly caught up in the general field of company management, sometimes, no doubt, for reasons which have more to do with politics than economic realities. This is the point in the new policy

where the Government's ambition for "back-door nationalisation" reveals itself.

Bonus

The profits distributed to policyholders are called *bonus*. A bonus is declared at a certain percentage of the face value of a policy at each valuation, or it may be declared as so many rupees per policy, e.g., 2 per cent of the face value of a policy, or Rs. 20 per 1,000 sum assured.

There are both with-profit and without-profit policies, premiums of the former being higher than those of the latter.

The common practice is to declare a higher bonus on endowment assurance than on whole life policies.

A bonus vests in a policy, and becomes payable on a claim either by maturity or by death. It is not paid immediately after declaration, nor does it become payable before the maturity of a policy. Such a bonus is called *reversionary bonus*. A company may allow the payment of a bonus in cash but the cash value of a bonus is discounted. A bonus may be utilised for reducing the future premium.

A policy is generally entitled to share in profits if it remains in force for some time. In this matter the practices of companies may vary. Some companies give a bonus after a policy remains in force for at least two or three years, while others give a bonus from the very inception of a policy.

The rate of bonus is fixed at every valuation. A claim may arise between two valuations—it may happen before a valuation becomes due. How bonus for such a period after one valuation but preceding another is fixed? A bonus which is declared for such an intervening period is called an *interim bonus*. It may be lower than the regular bonus. The practice is to give an interim bonus at the same rate as is declared in a preceding valuation. If a policy receives a bonus from the very inception of a policy it is in the nature of an interim bonus, as it is given before a valuation becomes due.

If a bonus vests in a policy it is accumulated over a number of years, and is paid when the policy matures for payment. It is then called a *simple reversionary bonus*. For example, a bonus of Rs. 20 per Rs. 1,000 sum assured is given every year for twenty

years, on maturity after twenty years the total bonus on a policy becomes Rs. 400 and the policy money which is paid on maturity amounts to Rs. 1,000+Rs. 400=Rs. 1,400. A bonus may also be paid in a different way. A bonus may be calculated not on the face value of a policy but the value of a policy includes the previous bonus additions for the purpose of calculating a bonus. For instance, a bonus is declared at 2 per cent and a policy is in force for ten years and it participates in bonus at the same rate for ten years. So a bonus will be paid at the rate of 2 per cent of the sum assured plus sums added on account of previous bonus payments. This is called a *compound reversionary bonus*.

Surrender Value

If an insurance policy remains in force for at least two or three years, it acquires a surrender value. It is based on the reserve value of a policy, and is calculated at a certain percentage of the reserve value after allowing for expenses, and for an increased rate of mortality.

The reserve value of a policy is based on the premiums paid on a policy. If a premium is paid, a portion of it is spent on agent's commission, office management, etc., and the remainder constitutes reserve of a policy.

The surrender value is not equal to the reserve value, as insurance is based on a cooperative plan, so if any policyholder withdraws it means a greater strain on the remainder. It is more so as in the case of a surrender a good life is withdrawn, placing greater pressure upon mortality. So a deduction is made from the reserve value in order to safeguard the interests of the surviving policyholders. If a policy is surrendered, a surrender value is paid and the contract of assurance lapses.

Paid-up Policy

Instead of surrendering a policy a policyholder has an option of taking a paid-up policy. If a policy is paid-up, no further premiums are payable but the policy remains in force according to the original conditions except for a reduced sum. A paid-up policy is allowed after a policy remains in force for two to three years when it acquires a surrender value.

Automatic Non-Forfeiture

If premiums are not paid on a policy in due time, the latter lapses. It can be revived by paying arrears of premiums. If a policy remains in force for 2 or 3 years and acquires a surrender value, some advantages are allowed to a policyholder if the policy lapses. A policy may become automatically paid-up in the absence of any other advice from a policyholder. Companies may have a non-forfeiture clause, so if a policy lapses after acquiring a surrender value, a company will, in the absence of any contrary advice from a policyholder, automatically keep the policy in force by paying premiums which are borrowed from the surrender value. As soon as the premiums are paid-up to the full amount of the surrender value, the policy lapses and a policyholder can no longer claim any money on such a policy. A paid-up policy is preferable to a non-forfeiture. In a paid-up policy a policyholder is assured of a certain sum of money, while in a non-forfeiture he may lose all money.

Annuity

An annuity denotes a payment which is made every year to a beneficiary who is called the annuitant. A life assurance company may undertake to pay to a certain person an income every year in exchange for either a lump sum payment, or of payments paid over a number of years. Annuity may be either an *annuity certain* or *annuity for life*. An annuity certain makes annual payments to an annuitant for a fixed number of years, while in an annuity for life, an annuitant is assured of an annual income throughout his life. As there is an element of risk in the latter case, there may be a medical examination of an annuitant as in the case of life assurance.

The advantage of an annuity is that a person becomes certain of earning an annual income regularly without any risk of investment. In life assurance the entire money is paid in a lump sum on maturity and an assured has to invest the money he receives.

Fire Insurance

A fire insurance policy is a contract of indemnity, and an insurer undertakes to indemnify an insured against a loss.

Types of Offices

In fire insurance premiums are charged according to risks. Many Indian companies have joined an association, and its members are called *Tariff Offices*. The latter have agreed to charge the same premiums for similar risks but *Non-Tariff* offices can charge any premium which they like.

Forms of Policies

A fire policy may be (1) a *special policy* in which an insurer is obliged to indemnify an assured for a stated sum, irrespective of whether a subject matter is insured for the full value or not. (2) It is called an *average policy*, if it carries an *average clause*. Under it an insurer is liable to indemnify an assured for a value. This is equal to a ratio which an insured value bears to the actual value of the insured object. For example, if a property is worth Rs. 1,000 and is insured for Rs. 500 only with an average clause and fire takes place an assured is entitled to receive a claim of only half of Rs. 500, viz., Rs. 250 and not Rs. 500 which is the insured value. Under an average clause an insured will be considered to be his own insurer for the uninsured value of a property, and he must be made to bear proportionately the costs of risks in the event of a loss. An average clause safeguards an insurer against an under-insurance on the part of an assured. (3) In a *valued policy* an insurer is liable to pay the full value. This kind of policy is common in the case of curios and precious relics which cannot be replaced. The insured value in such cases is settled before a policy is issued. The basis of fire insurance is indemnification for a loss or damage. The burden of proving the extent of a loss or damage rests upon an assured. An insured must prove his loss or damage on the basis of the market value of a property. (4) A *floating policy* covers risks of different properties, scattered over several localities. Floating policies which are used for mercantile risks cover fluctuating risks held in several warehouses. They also contain a second condition of average, the object of which is to relieve a floating policy from liability to contribute to a loss which is covered by a separate policy, unless the latter insurance is inadequate to pay the entire loss in which case a floater pays the balance of a loss, subject to an average. Floating policies cover stocks floating over the premises of a

manufacturer. Instead of a high rate of premium applicable to any portion of the risk, an average rate is adjusted and charged for the entire risk.

An "excess fire policy" meets the requirements of traders whose stocks on hand vary in quantity and value from time to time. Insurance need not be maintained against the maximum amount of stocks. An "excess policy" covers fluctuations in value at an average cost, the normal risk being covered by an ordinary fire policy issued for a specific sum. The difficulty which arises under an "excess policy" is that a holder of a policy, who has a standard policy covering the main risk may be penalised by the operation of a condition in a standard policy which limits the contribution of a standard policy to a rateable proportion of the loss. So "excess policies" are commonly substituted by "declaration fire policies" which are effected for a sum, calculated to cover the maximum amount which may be on risk at a time during the continuation of a policy, premiums being estimated by periodical declarations. In "adjustable fire policies" an assured notifies a company of his requirements on each occasion as the value of stocks increases or decreases before a risk is taken. In "declaration policies" an insured declares the value of stocks at the end of a stipulated period. "Sprinkler leakage policies" are issued to indemnify an assured against a loss or damage, caused to buildings, their contents, or to both by accidental leakage of water from an installation of sprinklers which act automatically on the raising of temperature by fire and they spray water uniformly over the affected parts of the premises.

Assignment

A fire or accident policy cannot be assigned without the consent of the underwriters, unless the interest of the assured ceases to exist automatically by a will or by some other legal action.

How Claim is made and settled

If a claim arises in a fire insurance, it should be communicated immediately to an insurance company. An insured must make a claim, stating the extent of a loss and giving the market value of a property with supporting documents, if possible, within fifteen days of the occurrence of a fire. A company may require

an affidavit in support of the statement of an insured. A company may send its agent or representative to visit the place of fire, and he is entitled to enter the premises, destroyed or damaged by fire.

As adjustments in fire claims are complicated, experts called assessors are appointed to settle fire claims. A fire policy contains an arbitration clause which provides for settlement of disputes between an insured and an insurer by means of arbitration. An insured may appoint one arbitrator, the insurer appoints another. If the two arbitrators differ, the latter may appoint an umpire, whose decision is final and obligatory upon the parties concerned.

Loss of Profits Insurance

Loss of Profits Insurance denotes that an assured who is a business man can cover himself, by means of an insurance policy, against any loss of profits because of fire. The policy covers (a) loss of net profits, (b) of payment of fixed charges, and (c) of increased expenses of working due to the hire of temporary premises, etc.

Motor Car Insurance

There are four kinds of *motor car insurance* policies, namely, (a) private motor cars, (b) commercial vehicles, (c) motor trader's vehicles, and (d) motor-cycles. A motor insurance policy covers risks of the physical body of a car and third party risks. Third party risks in accident insurance denote that an assured is insured against a loss, injury or damage to a third party, caused by his action or negligence.

Third party risks, especially in the case of motor vehicles, should be covered by insurance policies. If a third party suffers in the absence of such an insurance, the loss may be recovered by recourse to law courts. So the size of the actual payment of a compensation to a third party will depend upon the capacity of one who pays. The difficulty of financial incapacity of a person liable to pay is removed by means of an insurance policy which obliges an insurer to pay. For instance, if a third person is killed or wounded severely, damages must be paid by the owner of a car. If an owner is unable to pay, a claimant obtains no

compensation. A party is safeguarded if third party risks are covered. The Motor Vehicles Act of India has made third party risks insurance compulsory.

Employer's Liability Insurance

An employer is liable to compensate an employee or the latter's dependents in Common Law and under enactments (like the Workmen's Compensation Act) if a worker dies in an occupation, or is disabled, or injured in the course of work. The liability of an employer can be covered by means of an insurance policy. An insurance company undertakes to pay the claim for damages against an employer who is insured against such a risk by paying premiums. The rates of premium are adjusted according to wages of workers. An insured employer must maintain a wages book which can be inspected by an insurance company. An abstract of the book must also be submitted regularly every year to an insurance company. The policy usually contains a clause which frees an insurance company from liabilities about employees who work under a sub-contractor of an insured employer. Such a risk may also be covered by the payment of additional premiums. In the case of such employer's liability insurance, notices of an accident and of a claim for damages must be soon communicated to an insurance company. In such an insurance policy there is an arbitration clause. In the case of a dispute between an insured and an insurer, it is referred to an arbitrator for settlement. [For the working of the Workmen's Compensation Acts in India, see Chapter XXXV].

National Health Insurance

Compulsory insurance against sickness of workers has been introduced in the United Kingdom by the National Health Insurance Act of 1911 as amended in 1924 and 1928. A worker (between ages of 16 and 70) earning less than £250 per year must be compulsorily insured against sickness and those who work with hands must be insured even if they earn more. Insurance may be effected in two ways—a worker may become a member of an approved society or he becomes a composite contributor. Costs of insurance are shared by workers, employers and the State.

In addition to medical benefits, there is free dental and optical treatment.

Unemployment Insurance

There is compulsory insurance against unemployment of industrial workers in the United Kingdom. Costs of insurance are shared by workers, employers and the State.

Workmen's State Insurance

The problem of health insurance for industrial workers in India was examined by Professor B. P. Adarkar who was appointed to investigate the matter, and he submitted his report in 1944. The Workmen's State Insurance Act of 1948 was subsequently passed, providing for sickness, maternity, accident and other benefits for workmen employed in factories. The Act has been drafted on the basis of the National Health Insurance Acts of the U.K., and it incorporates the major recommendations of the Adarkar Report.

The Act envisages a scheme of compulsory State insurance, providing benefits for sickness, maternity and unemployment of factory workers. For the time being, there is no provision for unemployment and old age pension. The administration of the scheme is entrusted to a Corporation called the Employees State Insurance Corporation. Its functions are performed by a Central Board, composed of representatives of the Central and State Governments, employers, workers and medical profession. It also includes some members of Parliament. A Standing Committee acts as the executive of the Board and a Medical Benefit Council advises it on matters, relating to the administration of the medical benefits. Money received by the Corporation is paid into a fund called the Workmen's State Insurance Fund which is derived from contributions by employers and workmen. Contributions in respect of each worker are based on average wages. An employer is responsible for paying his own and a worker's contributions but he is entitled to recover the worker's share from wages. Workers whose earnings do not exceed sixty-two naye paise a day are exempted from contributing any money, and the entire contribution on his account is paid by an employer. The following

is a chart of the contributions of an employer and workman, based on the average daily wages:—

| Group of Workmen. | Workmen's contribution (recoverable from workm | Employers' contribution. | Total contri- bution (work- men's and employer's contribution) |
|---|---|-----------------------------|--|
| | Rs. nP. | Rs. nP. | Rs. nP. |
| 1. Workmen whose average daily wages are below 62 nP. ... | Nil | 0 34 | 0 34 |
| 2. Workmen whose average daily wages are 62 nP. and above but below Re. 1 ... | 0 06 | 0 37 | 0 44 |
| 3. Workmen whose average daily wages are Re. 1 and Re. 1/50 | 0 12 | 0 44 | 0 56 |
| 4. Workmen whose average daily wages are Re. 1/50 and above but below Rs. 2 ... | 0 25 | 0 50 | 0 75 |
| 5. Workmen whose average daily wages are Rs. 2 and above but below Rs. 3 ... | 0 37 | 0 75 | 1 12 |
| 6. Workmen whose average daily wages are Rs. 3 and above ... | 0 50 | 1 00 | 1 50 |

Insured workmen are entitled to the following benefits:—

(a) *Sickness Cash Benefit*:—A worker, certified to be sick and incapable of working, receives, for a period not exceeding 8 weeks in a continuous twelve monthly period, a cash allowance which is equal to half his average daily wages during the previous six months. He is entitled to receive medical care and treatment in specified hospitals, dispensaries or other institutions.

(b) *Maternity Benefit*:—Women workers are entitled to receive a maternity benefit of 75 nP. a day for 12 weeks. They are entitled to medical aid at such institutions.

(c) *Disablement and Dependents' Benefits*:—A worker disabled by employment injury, receives for the period of disablement, either temporary or permanent, a monthly pension which is

equivalent to half his average wages during the previous 12 months, subject to a maximum and a minimum. In the case of partial disablement a pension is proportionately reduced. In the event of death resulting from employment injury benefits are payable to a widow and/or other dependents.

Medical care and treatment of the insured worker is provided by State Governments in prescribed hospitals, dispensaries and other institutions, and the cost of such benefits is shared by the State Governments and the Corporation. Workmen's State Insurance Courts have been set up to decide disputes and adjudicate on claims. The Central Government makes rules on matters, relating to the administration of the Corporation (such as nomination or election of members of the Board, Standing Committee, Medical Benefit Council, powers and duties of the principal officers), raising of loans, investment of funds, accounts to be maintained by the Corporation, their audit and publication. The State Government makes rules on matters, relating to Workmen's Insurance Court, establishment of hospitals, dispensaries, medical institutions etc., and scale of medical benefit to be provided to the insured persons. The Board makes regulations on matters, relating to the working of the scheme (such as, collection of contributions), payment of benefits, returns and other particulars to be submitted by employers, conditions to be observed by insured persons in receipt of the benefits etc.

There is disappointment as the State will not make regular contributions towards the working of the scheme. Professor Adarkar, in his report, remarks that "the financial participation of the State (including both the Government of India and the State Governments) would be an eminently desirable feature of the scheme". "Without such contribution", Prof. Adarkar points out, "Government's right to interfere or participate in the internal administration of the scheme becomes open to question". In other countries, particularly in the United Kingdom, the State bears a part of the administrative expenses of the National Health Insurance schemes and the Government of India might well follow this.

Burglary Insurance

It is possible to insure the contents of private dwelling houses against burglary, house-breaking and larceny. The contents of

business premises are also covered against burglary and house-breaking. Other forms of burglary policies cover "all risks insurances" of jewellery, furs, etc.; "baggage" insurance covers risks of luggage in transit; risks of cash and securities in transit, etc., can be also covered.

Fidelity Insurance

An employer may cover himself against a loss, following embezzlement or larceny on the part of employees, by taking a fidelity insurance policy. It may cover a loss against the misbehaviour of employees. Fidelity insurance does not guarantee faithfulness and honesty but it guarantees payment as compensation in the case of misbehaviour of employees. Bonds are issued to Government Departments, covering risks of employees. Court Bonds are issued in the case of administration of an intestate's or lunatic's estate and they guarantee proper administration of an estate.

Fidelity insurance covers the risk of an employer, if he takes care. A fidelity insurance policy is not issued to an employer unless he can satisfy an insurer that he is careful about employees.

Personal Accident and Sickness Insurance

There may be policies, covering (a) personal accidents, (b) personal accidents and certain specified diseases, (c) personal accidents and all kinds of diseases, (d) personal accidents and diseases of an insured up to a certain age.

TERMS AND PRINCIPLES IN INSURANCE

Proposal

A *Proposal* form is printed. It serves as an application by a proposer to a company for a policy. In it questions relating to a proposed risk are answered. Answers and statements must be made correctly to the best knowledge of a proposer under his signature. A wilful misstatement with a view to fraud may invalidate a policy contract. It must be made on the principle

of utmost good faith. No suppression of facts relating to the assessment of a risk should be made. A proposal form is the basis of a policy contract. In the case of a fire policy, a proposal form may not be required, especially if a risk is covered before issuing a policy.

Endorsements

An endorsement is affixed to a policy to provide for a special requirement not otherwise provided in the text of a policy. An endorsement must be properly countersigned.

Warranty

A warranty may be express or implied. It denotes a promise by an insured to fulfil certain conditions. If a warranty is not properly honoured by an insured, an insurer may make a contract invalid.

Cover Note

Cover note denotes a letter, either written or printed. It is issued by a company to an insured, covering a risk before issuing a policy or declining a proposal. A cover note is subject to the same conditions and terms as are found in a policy. It is issued whether a premium is paid or not. If a premium is paid along with a cover note, a deposit receipt is attached, acknowledging that the premium has been deposited on account. A cover note is generally used in fire and accident insurances.

Day of Grace

In life policies, a policyholder is allowed to pay premiums within a few days after a due date. The extra days which are allowed are called *grace days*. Grace days are also allowed in fire, accident and other insurance.

"Ex-Gratia" Payments

Occasions arise in insurance where an insurer is morally liable for a claim which is not legally enforceable. This may spring from an innocent misrepresentation by an agent, or from

genuine misunderstanding. In such an event an insurer makes payment without prejudice to an insured.

Occasions for such payments commonly arise in marine insurance, if a claim occurs before the issue of a policy. A claim in marine insurance is honoured by an insurer as soon as the terms of an insurance are settled between an insurer and an insured. Such payments are called "ex-gratia" payments.

Insurable Interest

Formerly insurance was transacted for gambling. People gambled on the expectation of some events. In order to remove gambling, the principle of insurable interest has been adopted. No person can legally take out an insurance policy unless he possesses an insurable interest in the subject matter of insurance. He must have some pecuniary interest in an object insured. There must be an insurable interest in an insurance contract, or the latter becomes void (an illegal contract). An insurable interest must be definite (capable of valuation), valid and legal. An insurable interest may exist under the following conditions, namely (a) there must be some physical object on which an insured peril may act, or there must be a potential liability which is caused by a peril insured against, (b) an object or a potential liability must form a subject-matter of insurance, and (c) an assured must possess a legal interest in a subject matter of insurance in such a way that he stands either to benefit by the safety of a subject matter, or he suffers by a loss or damage of the subject matter.

In a life assurance, an insurable interest is possessed by (a) a person in his or her own life, (b) a creditor in the life of his debtor to the extent of a loan, (c) a trustee about an interest for which he is a trustee, (d) a wife in the life of her husband, (e) a husband in the life of his wife, (f) a surety in the life of his principal, (g) a business partner in the life of his co-partner, etc.

In fire insurance, insurable interest vests in a person who is the owner of a property, is in possession of it, is a buyer of it, is its lessee, is a trustee, or is a beneficiary under a trust. A mortgagee or a person who has a charge on a property has an insurable interest in the property. A person who is liable in the case of destruction of a property possesses insurable interest in the latter.

In marine insurance, everyone interested in a marine venture possesses an insurable interest. One who stands to benefit by the safety of a subject matter of insurance, or to suffer by its loss possesses an insurable interest. For instance, a ship-owner and a cargo-owner have insurable interest in their property; a mortgagee or a consignee has insurable interest up to the extent of his claim; a master and a crew have insurable interest in respect of their wages; a lighterman has insurable interest in respect of his liability about loading and unloading.

In life insurance an assured insures his life, as a life assurance policy is a contract to pay a certain sum of money on death which must occur, while other insurance contracts are contracts of indemnity.

An insurable interest must exist in life assurance at the time of taking a policy and not necessarily at the time of a claim; in fire and accident assurances, the insurable interest must exist both at the time when a policy is issued, and at the time of a loss. In marine insurance it must exist at the time of a loss.

Reinsurance

Reinsurance denotes insuring an insured risk. If a company accepts a risk, it reinsures either the whole or a portion of the same risk again with another company. In the event of a risk, an insurer will have to pay a big amount if he carries the risk alone. So a system of reinsurance is helpful. It helps insurance companies spread their risks among themselves. Although it enables a company to pass on to others a bad risk, such a step should be discouraged, and it may be avoided if a reinsurer is careful.

Reinsurance may be effected in two ways, namely, *facultatively*, or by means of a treaty. In *facultative* reinsurance, a reinsurer is free to reinsure a particular risk or a portion of it according to his will. He may decline a risk which is offered for reinsurance.

In the case of a *treaty* reinsurance, there is no choice left to a reinsurer. If reinsurance is done by a treaty, a reinsurer is obliged to reinsure up to a specific amount within a certain period according to an agreement.

A reinsurance treaty may be mentioned in terms of lines. For example, a four-line treaty confers automatically the power

upon an insurer to accept a risk for four limits in addition to his own risk. If his limit is Rs. 3,000 he can insure a risk of Rs. 15,000, the excess of Rs. 12,000 can be reinsured under a four-line treaty.

Principle of Utmost Good Faith

An insurance policy is a contract between an insurer and an insured. Like any other contract, a policy contract is based upon certain conditions which are disclosed by an insurer and insured. In expressing these conditions, it is expected that parties will act in utmost good faith which is important in insurance. More often than not, especially in marine insurance, a policy is issued simply on faith. Conditions must be stated truly as the rating of a risk depends on information given by an insured. Any suppression of a material information about a risk can make a policy contract void.

Questions

1. Write notes on Marine Insurance. (B. Com., Cal., 1962).
2. Discuss fully general and particular average clauses of a marine insurance policy. (B. Com., Burdwan, 1962).
3. In a G/A sacrifice, how are the contributions of ship, freight and cargo determined? When is Marine Policy assignable? How can it be assigned? (B. Com., Cal., 1948).
4. A contract of Marine Insurance is a contract founded on the utmost good faith. Examine this statement and show how far it is justified. (B. Com., Cal., 1959).
5. What is the necessity of a "quinquennial" valuation in life assurance office? What do you understand by 'a bonus of Rs. 25 per thousand has been declared on endowment policies'? (B. Com., Cal., 1957).
6. State and explain the various implied warranties in the case of a marine policy. (B. Com., Cal., 1934 and 1956).
7. In an Accident Insurance Policy, what is meant by the following terms: (i) Complete Disablement; (ii) Partial Disablement; (iii) Ex Gratia payment. (B. Com., Cal., 1949).
8. Explain carefully the procedure for insurance adopted at Lloyd's. What is implied when goods are insured 'F. P. A.'? (B. Com., Cal., 1958).
9. What is meant by the following types of insurance? Explain their utilities in commerce: (a) Marine Insurance, (b) Fire Insurance, (c) Employers' Liability Insurance, (d) Third Party Risks Insurance.
10. What utility, if any, have the following types of insurance in commerce?—(i) Fidelity Guarantee; (ii) Burglary; (iii) Fire; and (iv) Workmen's Compensation. (B. Com., Cal., 1960).

11. What is meant by Fidelity Guarantee Insurance?
Describe the various considerations that arise in connection with this type of insurance policy.
Is it really possible to guarantee fidelity? (B. Com., Cal., 1941).
12. How does a life assurance company determine the amount of premium to be charged on each policy? (B. Com., Lucknow, 1956).
13. Compare the function of a Bank with that of an Insurance Company in financing trade and industry. (B. Com., Cal., 1932).
14. Explain in full the system of marine insurance known as Lloyd's.
(B. Com., Lucknow, 1961).
15. Give a short account of the Lloyd's insurance organisation explaining in particular the method of operation of Lloyd's underwriters in effecting insurance. (M.A. Com., Cal., 1956).
16. What is meant by the following terms in Marine Insurance:—Average, Subrogation, Causa Proxima and Jettison? (B. Com., Lucknow, 1958).
17. Define and discuss F. P. A. Policy, insurable freight, lost or not lost clause as applied to marine insurance policies.
(B. Com., Allahabad, 1949).
18. When is a marine insurance policy assignable? How can it be assigned? (B. Com., Cal., 1952).
19. What do you understand by the following terms—(a) Charter policy, (b) Bill of Lading, (c) Demurrage, (d) Salvage.
(B. Com., Cal., 1956).
20. Define—(A) (1) Valued Policy, (2) Open Policy, (3) Time Policy, (4) Floating Policy. (B) What are the principal clauses of marine insurance policy? (C) Distinguish between actual loss and constructive loss.
(B. Com., Cal., 1960).
21. In a G/A sacrifice, how are the contributions of ship, freight and cargo determined? (B. Com., Cal., 1948).
22. Give a short account of the origin, development and present method of working of what is known in the shipping world as the Corporation of Lloyd's. (B. Com., Cal., 1935; Lucknow, 1959).
23. State in what ways insurance plays a part in furtherance of modern commerce. Give illustrations. (B. Com., Cal., 1953).
24. The Directors of Ganga Jute Co., Ltd., wish to cover all possible risks by taking out Insurance Policies. Describe how many types of Insurance Policies they will have to effect. (B. Com., Cal., 1951).
25. Explain any five with illustrations:—
(a) Constructive Total Loss, (b) Capital Reserve, (c) China Store, (d) Protective Export Duty, (e) Mate's Receipt, (f) Causa Proxima, (g) Scheduled Bank.
26. Explain the main clauses of a Marine Insurance Policy.
(B. Com., Cal., 1955).
27. What are the contributing interests in a General Average Loss and how are the claims adjusted. (B. Com., Cal., 1956).
28. When is a marine insurance policy assignable? How can it be assigned? (B. Com., Cal., 1957).

29. Enumerate the main clauses of a Marine Insurance Policy.
(B. Com., Cal., 1959).
30. A contract of marine insurance is a contract of utmost good faith. Examine this statement and show how far it is justified.
(B. Com., Cal., 1957).
31. What is Jettison? Explain fully the principles governing general average, and give an example of general average adjustment.
(B. Com., Cal., 1949).
32. Explain what is meant by each of the following: Workmen's Compensation Insurance, Fire Insurance, insurance against loss of profits through fire.
(M.A. Com., Cal., 1951).
33. Comment on the main factors that are taken into account in determining the rates of premia for whole-life and endowment "with profit" policies. Why are quinquennial valuations necessary in the Insurance Companies?
(M.A. Com., Cal., 1961).
34. Explain the principal types of life assurance policies ordinarily issued and state briefly the advantages and disadvantages of each.
(B. Com., Agra, 1961).
35. Explain the term "General Insurance". How do you account for the formation of a number of general insurance companies in India in recent years? What different risks should a prudent businessman cover by insurance?
(B. Com., Agra, 1959).
36. Do you prefer life assurance to other forms of investments? If so, why? How would you select a life insurance company if you wished to insure your life?
(B. Com., Agra, 1960).
37. What are the principal implied warranties in the case of a marine insurance contract? Explain them clearly.
(B. Com., Agra, 1956).
38. Discuss the role of insurance in modern commerce.
(B. Com., Rajputana, 1960).

CHAPTER XXXIV

CO-OPERATIVE MOVEMENT

Co-operation denotes an association of individuals to achieve common ends—economic, social and educative. It is an economic as well as a moral principle. The moral and educational aspects of co-operation have been stressed by the sponsors of the movement. It is an association for mutual benefit and it is based on the motto “all for each and each for all”. Persons associate together to obtain economic ends and secure gains for themselves. Co-operation benefits the members and excludes the possibility of making profits.

Producers’ Co-operation

In economics producers’ and consumers’ co-operation is prominent. In producers’ co-operation workers combine to form a society for making production. It denotes a democratic management of industry and production. This type of co-operation has not succeeded greatly and its scope is limited.

A producers’ co-operative unit cannot compete with capitalists in large-scale production. Workers manage democratically a producer’s co-operative unit, but they do not possess the same expert knowledge and skill as is found in private entrepreneurs. It finds difficulty in production which needs a large capital outlay.

The producers’ co-operative movement may succeed in production, where a big capital is not necessary, nor technical and expert knowledge is required. It is, therefore, suitable for agricultural production and cottage industries. It has made conspicuous progress in agriculture in Denmark, Ireland and the United States of America.

Consumers’ Co-operation

In consumption co-operation has had good success. Individuals combine and form societies for handling consumption. Here the movement takes the form of co-operative stores. Members of co-operative stores buy commodities from the

stores. They may sell at market prices but the profits are distributed among members on the basis of their purchases.

Individual consumers can therefore retain for themselves a large portion of the profits which otherwise go to the middlemen, wholesale and retail traders. The elimination of middlemen is the main object of the consumers' co-operative movement.

Individual consumers may stock goods of quality according to their tastes and needs. The stores may make profits by buying commodities in the market on a wholesale basis at cheap prices. Some of the co-operative stores in England and other foreign countries have expanded so successfully that they even manufacture commodities. Production is restricted to goods of standard quality and size. The stores start production with confidence as they have guaranteed sales. Co-operative stores may also sell commodities to the public like a retail shop.

Co-operative Movement in India

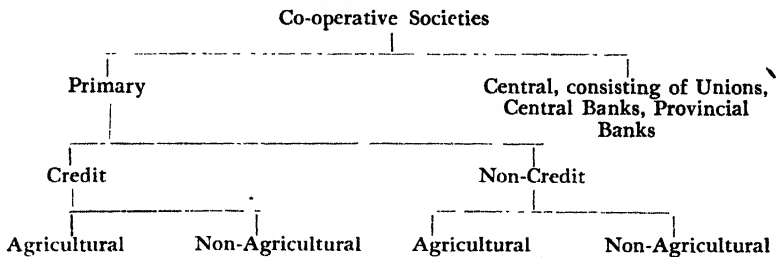
Co-operation in India was first introduced in agriculture, especially in respect of finance. Indian agriculture has been beset with drawbacks and defects for reasons more than one to rehabilitate our agricultural economy on a sound basis co-operation has been introduced.

Cultivators in India are heavily in debt, as they rely on money-lenders for short-term credits. They pay exorbitant rates of interest. Co-operative credit societies have been started with a view to providing agricultural finance. Co-operation has gradually been extended to cover other agricultural activities, such as production, sales, marketing and many non-agricultural duties. The co-operative movement offers scope for expansion, as it has touched only the fringe of the problem so far.

The co-operative movement in India was introduced by the Act of 1904 which legalised credit societies only. Gradually, the necessity for other kinds of co-operation was realised, so the Act of 1912 was passed. It recognised non-credit forms of co-operation in respect of purchase, sale, production, etc. It also recognised three kinds of central organisations, namely, (a) Unions consisting of primary societies for mutual control and credit, (b) Central Banks, composed partly of individuals and partly of societies, and (c) Provincial Banks, consisting of individuals. In 1914 the

MacLagan Committee was appointed to enquire into the co-operative movement and suggest improvement.

The following chart shows the classification of the co-operative movement in India.



The credit movement is in the form of a pyramid. The basic societies are the primary credit societies. The credit societies are not adequate to provide rural areas with funds. They require finance which cannot be supplied by ordinary jointstock banks, as they are not prepared to finance long-term loans which are required by agricultural credit societies. So there are co-operative central banks on top of the credit societies. These banks consist either of individuals, societies, or both. In West Bengal, central banks consist of societies, which are supervised and controlled by the former. The central banks are financing agencies. They supply credit societies with finance. The success of the co-operative credit movement depends to a very large extent on the successful working of the central banks. They must raise funds, supply credit societies with money, control and guide the credit societies in such a way that the latter may not run into bad debts. On top of these central banks, there are Provincial co-operative banks. The Provincial Bank is the apex bank. It consists mainly of individuals. Its main object is to finance the central banks. The Provincial Bank should follow a cautious policy, and guide the central banks to remain on prudent and sound lines.

Even in agricultural credit, the co-operative movement cannot claim to have an unmixed success. Barring Madras, Bombay and Punjab, the experience of the movement, especially in West Bengal, is far from satisfactory.

Various reasons are attributed to the failure of the co-operative movement. Co-operation suffers too much from officialdom,

red-tapism and spoon-feeding. The Government, especially, in West Bengal, has neglected to infuse a real spirit of co-operation among the people. The movement has been steered by officials, who possess inadequate knowledge and experience of co-operation. The agricultural credit societies are faced with a crisis. Their funds are locked up, because credit societies are allowed to deviate from the function of financing short-term credits to that of long-term credits. They are saddled with overdues resulting from lack of vigilant control, bad debts, and favouritism. The honorary workers in the movement are not properly educated in co-operative principles and methods, so the movement has been diverted along wrong lines. The members of co-operative societies are not real co-operators; they are not properly educated, nor trained; they do not understand what is co-operation. They regard the movement as an institution imposed upon them by the Government.

In order to purge the co-operative movement of evils, it is necessary that right measures are taken to steer the movement along proper lines. Officials who control the movement should be properly trained. Attempts should be made to slacken official control and leave the movement to grow from within.

Properly guided, the co-operative movement bids fair to become useful. Agricultural production, sales, marketing, grading, etc., can be improved through co-operation.

In distribution, the experience of the co-operative movement should be utilised. Consumers' co-operation has not succeeded, nor has it expanded in India owing to the alleged infidelity of members and because of irregular income and bad management, etc. Such co-operation is beneficial and has many advantages for the consumers.

Co-operation can serve as a powerful educative weapon. It helps raise the standard of morality, inculcate thrift among people, infuse into them democratic ideas and generate a feeling of brotherhood.

Questions

1. What is a Central Co-operative Bank? Show how it can finance agriculture in rural areas. (B. Com., Cal., 1960).
2. Of late, various complaints about mismanagement and acts of misfeasance have been reported about Co-operative Credit Societies. As the

work is managed mostly by honorary workers, who profess to do it just for the love of it and generally for doing good to humanity, explain why or how any scope or occasion for the above complaints may arise. (B. Com., Cal., 1940).

3. Explain the points of similarity and otherwise between a Co-operative Society and a Joint Stock Company. (B. Com., Cal., 1956).
 4. Describe critically the history of the co-operative movement in India.
 5. Distinguish between different forms of co-operation.
 6. Describe the organisation of a Co-operative Sales Society. How will you organise one such Society for marketing jute? Where is the finance necessary for the purpose to come from? (M.A. Com., Cal., 1943).
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CHAPTER XXXV

THE STATE AND INDUSTRY

The State

The common function of a State is to maintain order and peace. There is a controversy as to whether a State should interfere with the economic life of the citizens. There are two extreme views. One view is that a State should follow a policy of *laissez faire* in economic matters, while others maintain that it should own and control means of production. The majority of opinions favour a *via media*. There should be individual freedom in economic life with checks and balances imposed by a State. There are some industries and services which should be owned and controlled by a State. As Government has to obtain the maximum welfare of citizens, State's interference in the normal economic life should be guided by the test of "greatest good of the greatest number".

The Government of India pursues a middle course in economic matters. Industries which are considered fit for State ownership and control are either State-owned and controlled, or they are being gradually taken over by the Government.

Arguments for Nationalisation

Nationalisation denotes State ownership of industry, land or other property, including the means of production. The chief criterion of nationalisation is ownership, as a nationalised enterprise can be privately managed.

The advocates of nationalisation point to the dangers of private ownership, which leads to the concentration of industrial power and wealth in a few hands. It prevents the equitable distribution of the national income and causes monopolies and combinations.

Nationalised industries, unfettered by motives of profits, are likely to reward labour by higher wages and better amenities of life. A State can guarantee security of employment.

Consumers benefit, as goods are cheap because of the absence

of profits. Wasteful expenditures by means of advertisement and publication are eliminated in nationalised enterprises.

It is also contended that private enterprise exploits natural resources wastefully for earning profits. Unplanned and lopsided development of private enterprise causes a waste of national resources, and this is applicable, especially in the case of minerals and forest resources. It is suggested that nationalised industries can adjust themselves to changed economic conditions, as it is difficult to persuade private units to work in co-operation.

There are some economic activities which cannot be developed except by the State. Projects, requiring large capital without prospects of quick returns, are not undertaken by private enterprise. River valley schemes, irrigation projects, shipbuilding yards, heavy industries, public utilities can be developed better by a State as they offer little attraction of return but they help improve standards of living. Essential services, especially if they are monopolies, should be nationalised. For example, transport, gas and electricity undertakings give maximum benefits if they are run efficiently by the State. There are some strategic industries, *e.g.*, armaments which should be owned and managed by the State.

Having big resources, it is possible for a State enterprise to utilise the services of expert personnel and organise suitable researches, which private enterprises cannot afford to do because of limited means.

Arguments against Nationalisation

Apart from curbing individual freedom and initiative through regimentation, nationalisation is criticised from experience. It lacks in efficiency. State enterprises are amenable to political influences, and they are run on a routine basis. Profit—which is the chief motive force in business activities—is absent in State enterprises. Nationalised enterprises are managed in a stereotyped way and they fail where success depends on quick and intelligent decisions. Prices in nationalised industries are generally higher because of inefficient management.

State Enterprises in India

Railways constitute the biggest nationalised enterprise in India. Although railways earn handsome profits every year,

the latter occur because of rises in fares and freights rather than in efficiency.

The Damodar Valley Corporation is a notable river valley project. In making the project estimates have been exceeded, wastages and overhead costs have been excessive. Contracts were given without tenders and there was no approved schedule of rates for the execution of works. The river valley projects might even prove uneconomical and unworkable. The experience of other Government projects illustrates inefficiency and mismanagement.

The Sindri fertiliser factory was planned in 1944 on an estimated expenditure of Rs. 13.53 crores but it was completed at a cost of Rs. 23 crores, following the abnormal delay in acquiring land at a higher price and the absence of co-ordination between the different departments which were in charge of the scheme. Contracts were made on the basis of costs plus increases in prices in a rising market. The factory has been converted into a limited company, called the Sindri Fertiliser Company, the Government owning all the shares. It is expected to produce 3,50,000 tons of ammonium sulphate per year in due course.

There are eleven collieries owned and run by the Government, involving a capital expenditure of over Rs. 6 crores. Out of them, three are profitable and the remainder are uneconomic. The State collieries are running at a loss due to heavy costs, declines in production and employment of surplus labour. The responsibility of management is shifted from one Department to another. No serious endeavour is made to run them in a business-like way.

The Government set up the prefab housing factory in 1949 and spent Rs. 97.97 lakhs. It was later discovered that the houses were not suitable for this country, so the project was abandoned.

The Telephone Department earns a big profit because of high charges. It appears that the telephone charges are fixed by taxing the subscribers.

The Kanpur Electricity Supply Company was taken over by the U.P. Government in 1947. Since then the performance has deteriorated. Although the installed capacity of Kanpur Electricity has increased, the cost has risen out of proportion.

The principle of nationalising road transport is accepted by all the important States in India. There is, however, no unifor-

mity about the method by which nationalisation is being implemented. In Bombay, for example, the nationalised service is managed by a semi-public Corporation in which shares are held by the State Government and railways. In Punjab, U.P., Madras and West Bengal the services are run by Government Departments. Increased expenditures are not followed by a corresponding improvement in revenue. Considerable expenditures are incurred on operation and direction. Experience shows that fares of nationalised services are not cheaper than in private transport. The State transport services have yet to prove that they are equipped to provide cheap, efficient and safe transport.

The National Newsprint and Paper Mills Ltd. was launched with the support of the Madhya Pradesh Government which invested Rs. 65 lakhs in the share capital in addition to granting a loan of Rs. 165 lakhs. Later the company was grossly mismanaged and the Government had to take it over.

Notable projects owned and run by the Government of India include the Chittaranjan locomotive factory, Hindusthan aircraft factory, Indian telephone industries (in association with the Automatic Telephone & Electric Company of England and the Mysore Government), precision instruments factory, machine tools factory, etc.

Administration of Enterprises

As India has adopted a mixed economy it is important to explore means by which the management of State enterprises can be improved. Their pricing policy should be based on correct costing if resources are to be employed usefully.

It may be recalled that Mr. A. D. Gorwala was appointed to investigate the management of State undertakings, and make recommendations. The problem, he says, is to devise forms of organisation which retain the flexibility and effectiveness of the best type of private enterprise within the broad framework of parliamentary and ministerial responsibility. He has suggested the creation of a Policy Board of six members with a chairman which would manage all the State enterprises in this country. The chairman and one member may be government servants, free from departmental control. The remaining members may be selected from business and industry. 'Such a Board', he

observes, 'would furnish for the first time a live instrument whose principal business would be to raise the efficiency of government enterprises and make them models of scientific management and business methods'. Mr. Gorwala has also stressed the need for the autonomous administration of State enterprises except where, for specific reasons, real autonomy cannot be given.

It is suggested that nationalised industries should be managed in three ways. There are some undertakings, e.g., armaments which should be run by Government departments. Such industries have great strategic importance.

Industrial projects, e.g., river valley and irrigation schemes in which capital investment is large, should be managed by autonomous corporations, subject to the general control of the Government.

State enterprises which are commercial should be run on strict business principles, and it is suggested that they should be run in the form of limited companies. The managing director and directors of such companies should be carefully selected, and a considerable portion of the directorate should be recruited from successful business men. The Sindri Fertiliser Company Ltd. is organised in this manner.

It is suggested that the limited companies owned by the State may be managed by an experienced managing agency under a specified contract, which should offer reasonable incentives to a private management. The problem of whether the State should own all shares in such a company, or State-cum-private ownership should be combined, will depend on particular circumstances. In order to associate private management in the risks of such a company, it is necessary to allow private participation in ownership. The Government of India took over the ship-building yard at Vishakhapatnam from the Scindia Steam Navigation Company, and the project is run in the name of the "Hindusthan Shipping Yard Ltd.", in which $\frac{2}{3}$ capital are contributed by the Government, and $\frac{1}{3}$ by the Scindia Steam Navigation Company Ltd.

The system of running State industrial undertakings by private managing agents is sound and the State may make a contract with the managing agents in such a way that the control may revert to the Government if an industry is well established.

State Trading Corporation

The State Trading Corporation was established in May 1956 as an entirely State-owned organisation (the authorised capital is now Rs. 5 crores). Its aim is to stimulate trade, by filling up many gaps in India's foreign trade structure. Since its inception, the Corporation has been striving to increase India's exports to countries with controlled economies in order to secure from them such items as steel, cement and industrial equipment without straining the country's foreign exchange reserves. It has been endeavouring to diversify India's trade and find new markets for traditional and non-traditional export items of India. It has arranged a number of link deals with foreign countries for importing essential capital goods and industrial raw materials in exchange for exports from India. It has also arranged bulk contracts and effected equitable distribution of vital raw materials, such as caustic soda, soda ash, newsprint, mercury, camphor, dye stuff and so on, so that the prices of these items are brought down to reasonable levels. The quantum and timing of the imports have been so fixed as to avoid recurring disruption in the supply and to create and maintain conditions favourable for a larger production of these commodities in India. Among the goods for which exports have been arranged by the Corporation are: mineral ores, shoes, handicrafts, salt, tea, coffee and woollen goods. The Corporation has also played an important role in the development of port facilities, mines and transport which are essential for expeditious and efficient handling of goods imported or exported. The long-term contracts with Japan and some other countries arranged by the Corporation have boosted India's iron ore exports. It has contributed a good deal to speed up the development of railway connections between the mines and the shipping centres.

In July 1956 the Corporation was entrusted with the task of acquiring cement from Indian manufacturers, importing it from abroad, and made equitable distribution at an equalised price at all railheads in India. With the improvement in the internal supply position, the Corporation was authorised in 1958 to export cement from India.

The Corporation transacts both foreign as well as domestic trade. Although the Government of India originally decided that

the Corporation would restrict its activity to spheres in which private trading did not operate and that the Corporation would not trespass into the activity of private enterprise, in practice the Corporation has taken up a great deal of private trade in both foreign as well as domestic trade.

In respect of foreign trade there is justification for the activity of the Corporation as long as it helps expand foreign trade. If it merely replaces private enterprise not much good is likely to be obtained. There are a number of directions in which the Corporation's activity could be expanded usefully.

First, there is a great deal of trade between India and foreign countries, specially Communist countries, which is transacted on a Government-to-Government level. In such trade private enterprise is not suited as a Government organisation is likely to be better equipped for dealing with foreign Governments. In such trade, the Corporation's activity has proved useful.

Secondly, the Government of India transacts a big volume of trading with foreign countries in respect of food imports. In such trading the State Trading Corporation's activity may be justified.

In practice the Corporation is extending its activity in respect of foreign trade in such way that private enterprise seems to be merely replaced. For instance, the State Trading Corporation has been given a virtual monopoly in respect of iron ores exports. A considerable portion of manganese ores exports is being done by the State Trading Corporation. It is also competing with private enterprises in exports of other commodities. Experience shows that the Corporation's intrusion into private spheres has not been welcomed. Many countries are diverting their trade from India to other countries, as foreign traders do not like to deal with a Government body.

A considerable portion of the import trade is being done by the State Trading Corporation and it is doubtful whether its activity has been very useful. As far as there is a shortage of imported commodities, it is possible to find some justification for the activity of the Corporation. It may ensure the equitable distribution of the commodity but it is hoped that the Corporation would not disturb the normal channels of trade.

In the domestic trade the Corporation is extending its activity and there is little justification for doing so. For instance, it has

been given a monopoly of cement distribution. What the Corporation does is that it is merely taking commission on the total sale but the distribution continues to be made by the same private enterprise as before. Whether the Corporation can take interest in internal trading to serve the interests of consumers is not clear. The entire cement distribution has been taken over by it but consumers have not benefited. If a State monopoly is set up in trading, the danger is that consumers may be obliged to buy commodities at dearer prices for increasing the revenue. This apart, the Corporation's activity may be influenced by political considerations.

Export Credit Scheme

Export trade is competitive and a number of countries expand their export trade by giving credits to foreign buyers. The latter prefer to buy their requirements from a country which lends export credit. The Government of India is debating the possibility of setting up a scheme by which Indian exporters can lend credit to foreign buyers. Considering that there is a shortage of money, it is difficult for India to lend credit to foreign countries. Following the recommendations of an expert committee, a State-owned Export Risks Insurance Corporation with an authorised capital of Rs. 5 crores was set up in July 1957. The Corporation offers facilities for insuring risks not normally covered by commercial insurance companies. The Corporation has opened offices in Bombay, Calcutta and Madras in order to reach more easily the exporters in other centres. During 1959-60 the Corporation issued 250 policies undertaking maximum liability for Rs. 7.56 crores.

The latest report of the Corporation indicates that its activity is extending. There are a number of limitations from which the Corporation suffers. First, the Corporation's insurance scheme is voluntary. Reputed exporters do not go to the Corporation for insurance cover, as the price of a commodity increases if insurance premiums for the purpose of buying insurance policy from the Corporation are added to the costs of the commodity.

As a result, the Corporation may be burdened with bad risks because exporters who have little credit will go to the Corporation for buying an insurance cover.

An examination of the Corporation's activity during the past

year or so suggests that it has proved useful. An important factor is that exporters who cover their insurance risks with the Corporation are encouraged by bankers who lend them credit. The latter encourages foreign buyers.

Regulating Foreign Trade

To co-ordinate all work relating to the development of India's foreign trade, particularly promotion of exports, a Foreign Trade Board and a Directorate of Export Promotion (as the Board's executive agency in the matter of export promotion) were created in June 1957. The Directorate of Export Promotion now consists of four divisions at headquarters and one each at Bombay, Calcutta and Madras. The Directorate of Export Promotion rendered some direct services such as the framing of simplified rules for a number of items subject to drawback and rebate schemes, the preparation of rules for manufacture-in-bond and subsequent export of items like aluminium products, made from imported ingots, umbrellas, cigarettes, handicrafts and grant of assistance to exporters in securing passport, visa and foreign exchange sanction for bona fide trade promotion tours abroad. To stimulate exports, Government has in recent years established Export Promotion Councils for different commodities, namely, (i) cotton textiles; (ii) silk and rayon textiles; (iii) plastics and linoleum; (iv) cashew and pepper; (v) tobacco; (vi) sports goods; (vii) chemical and allied products; (viii) shellac; (ix) leather; (x) engineering goods; (xi) mica; and (xii) spices.

This besides, the Export Promotion Advisory Council has been set up to advise on matters relating to export policy and procedure with particular reference to the promotion of exports.

The Central Ministry of Foreign Trade has now been created to promote India's exports. The Minister has already set up a Foreign Trade Board which is to devise various measures to encourage exports. Although the Board is an advisory body, its recommendations are likely to carry weight with the Government as it is composed of representatives of the Government and the industry.

Industrial Policy

India's industrial policy was first announced in 1948. This envisaged a mixed economy with an overall responsibility of the

Government for the planned development of industries and their regulation in national interest. While it reiterated the right of the State to acquire an industrial undertaking in public interest, it reserved an appropriate sphere for private enterprise.

A fresh statement of industrial policy, necessitated by the acceptance of a socialistic pattern of society as the national objective, was announced on April 30, 1956. Under this, industries specified in Schedule A will be the exclusive responsibility of the State, while Schedule B industries will be progressively State-owned, but at the same time private enterprise will be expected to supplement the efforts of the State in these fields. Future development of industries falling outside these Schedules will, in general, be left to private enterprise. Notwithstanding this demarcation, it will always be open to the State to undertake any type of industrial production.

In the State sector are arms and ammunition and allied items of defence equipment; atomic energy; iron and steel; heavy castings and forgings of iron and steel; heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government; heavy electrical plant including large hydraulic and steam turbines; coal and lignite; mineral oils; mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamonds; mining and processing of copper, lead, zinc, tin, molybdenum and wolfram; minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953; aircraft; air transport; railway transport; shipbuilding and telephones and telephone cables; telegraph and wireless apparatus (excluding radio receiving sets); generation and distribution of electricity.

The State will also participate in all other minerals except "minor minerals" as defined in Section 3 of the Minerals Concession Rules, 1949; aluminium and other non-ferrous metals not included in Schedule A; machine tools; ferro-alloys and tool steels; basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics; antibiotics and other essential drugs; fertilisers, synthetic rubber; carbonisation of coal; chemical pulp; road transport; sea transport.

Regulation of Industry

The Industries (Development and Regulation) Act, 1951, has been enacted. Under the Act, all new and existing undertakings and any substantial expansion of the existing undertakings are required to be licensed. The Government has been authorised to examine the working of any industrial undertaking and to issue such directions as they consider necessary. If the undertakings continue to be mismanaged the Government is empowered to take over its management or control. A Central Advisory Council consisting of the representatives of industry, labour, consumers and primary producers is to be constituted to advise the Government on all matters concerning the development and regulation of industries. Development Councils for individual industries are also to be set up.

By exercising these powers, the Government aims at securing a proper utilisation of the country's resources, a balanced development of large and small industries, and a proper regional distribution of the various industries. At present 162 industries come within the scope of the Act. Besides the Central Advisory Council of Industries, Development Councils have been set up for the following industries: (i) heavy chemicals (acids and fertilisers); (ii) internal combustion engines and power-driven pumps; (iii) bicycles, sewing machines and instruments, (iv) sugar, (v) light electrical, (vi) heavy electrical, (vii) drugs and pharmaceuticals, (viii) alkalis and allied industries, (ix) woollen textiles, (x) art silk textiles, (xi) machine tools, (xii) non-ferrous metals and alloys, (xiii) oils, soaps and paints, (xiv) food processing, (xv) organic chemicals, (xvi) automobiles, automobile ancillaries and transport vehicles, (xvii) paper, pulp and allied industries, and (xviii) leather, leather goods and pickers. A number of panels and expert committees have been appointed from time to time to study various industries. Between October 1959 and September 1960, 1,349 new licences (including 536 relating to the establishment of new undertakings) have been approved under the Act. It was decided in 1959 that for industrial machinery as well as a number of other items firms concerned may apply straightway for import licences for capital goods and once these are granted the Industries Act licence will follow as a matter of course. Small and medium industries employing less than 100 workers and having fixed assets

of not more than Rs. 10 lakhs, have been exempted from licensing.

For the development of important industries for which sufficient capital has not been forthcoming in the private sector, the Government give financial assistance either by granting loans on special terms or by participating in equity capital. The Directorate General of Supplies and Disposals, the central purchase organisation of the Government of India, has been encouraging the indigenous industry through its stores purchase policy. The total purchases during 1959-60 (Rs. 183 crores) contained only 16 per cent imported stores against 37 per cent in 1955-56.

Following the recommendations of the Productivity Delegation which visited Japan in October-November 1956, a National Productivity Council was set up in February 1958 as an autonomous body with representatives of Government, employers, labour and others. The object is to inculcate productivity consciousness in the country and apply the latest techniques of increasing productivity in industry, by promoting the setting up of local productivity councils, in industrial centres and five regional productivity directorates manned by specialists. So far 41 local councils have been set up; five regional directorates at Bombay, Calcutta, Madras, Kanpur and Bangalore have also been established.

Small Industries

Although there has been considerable development of large-scale industries, India remains mainly a country of small-scale production. It is estimated that there are about 2 crore persons engaged in cottage industries. The handloom industry alone employs 50 lakh people or nearly as many as are employed in all other organised industries, including large-scale industries, mines and plantations.

The work of organising these small industries is primarily the responsibility of the State Governments. To supplement their efforts, the Central Government has set up the following bodies: the All-India Khadi and Village Industries Commission; the All-India Handicrafts Board; the All-India Handloom Board; the Small-scale Industries Board; the Coir Board; and the Central Silk Board.

Financial assistance to small industries is given by the Government and banking institutions.

A programme of technical assistance to small industries, known as the Industrial Extension Service, has been undertaken directly by the Central Government. Fifteen small industries service institutes (one for each State except Gujarat where there is a branch institute) and four branch institutes have been set up. Forty-five industrial extension centres are also working and offer technical facilities to various trades. Experts are also brought in from abroad to help these industries in technical matters and Indian technicians are sent for training abroad. These activities are done with the assistance from the Ford Foundation.

Another significant development was the establishment of the National Small Industries Corporation in February 1955. Its Contract Division has established liaison with Government purchase departments and has evolved a workable arrangement for giving contracts to small units. The Corporation has also been guaranteeing, since January 1959, credits to these small units offered by the State Bank of India for the execution of orders. The Corporation has introduced a scheme for hire-purchase of machinery and equipment needed by small units. The activities of the Corporation which also helps in the setting-up of small industrial units as ancillary to large ones, are financed by loans and grants by the Central Government.

For the development of small industries, the Community Projects Administration has appointed block level industrial officers in a number of community projects and national extension service block areas. An intensive development programme has been introduced in 26 selected areas.

Special attention has been paid by the All-India Handicrafts Board, set up in 1952, to the improvement of production and marketing of handicrafts in India and abroad. The Board is running 19 pilot centres—4 for training, 3 for training-cum-production, 3 for research experimentation, 5 for revival of traditional crafts and 4 for experimentation and production. About 100 cottage industries emporia have been set up all over the country. The services of four foreign experts were utilised for advising on different aspects of the industry. The Indian Handicrafts Development Corporation was set up in April 1958 to take over some of the functions of the Board in respect of export promotion. Schemes for inspection of various handicrafts for quality control have been finalised. Mobile exhibition units have been sent round

the country and funds allocated for the exhibition of metalware, bambooware, etc. 'Handicrafts weeks' are held from time to time in different States. The production of handicrafts has gone up and is now estimated at about Rs. 100 crores annually. Exports amount to nearly Rs. 7 crores a year.

The Coir Board is engaged in popularising and promoting coir products in India. A research institute at Kalavoor, near Allepey (Kerala), and a branch research institute and a model factory at Uluberia in Howrah district (W. Bengal) are being set up. The institute at Kalavoor started functioning in April 1959.

The Central Silk Board, established in 1949, looks after the promotion of sericulture and silk industry. The Central Sericultural Research Station, Berhampore (West Bengal), was established in 1943. It has a sub-station at Kalimpong (West Bengal). The station is Centrally administered and conducts research in improved methods of production, better and disease-free mulberry leaves and seeds. The station was expanded during the Second Plan. The Board has set up an All-India Sericultural Training Institute at Mysore and a Central Foreign Rape Seed Station at Srinagar. An eminent geneticist from Japan conducted a survey of the problems of research in Indian sericulture in 1957. The services of two other sericulture experts have since been obtained from Japan under the Colombo Plan for a period of one year.

Financial assistance to the khadi industry is given by the All-India Khadi and Village Industries Commission through co-operative societies, registered institutions, State Governments and the statutory Boards set up by the State Governments.

Defence Industries

The Research and Development Organisation, under the Scientific Adviser to the Defence Minister, was brought into being in January 1958, by the amalgamation of the Technical Development Establishments of the three services and the Defence Science Organisation to promote and apply scientific research for production. It is closely associated with the Production Organisation under the Controller-General of Defence Production and includes technical establishments dealing with weapons, ammunition, military explosives, metallurgy, electronics and optical instruments. It has under it research installations like the Defence

Laboratories at New Delhi, Jodhpur and Mussoorie, the Naval Physical Laboratories at Bombay and Cochin and research-cum-training installations like the Institute of Armament Studies at Kirkee.

The principal function of the Production Organisation is to achieve self-sufficiency in respect of stores and equipment required by the three Services.

The ordnance factories, which until recently catered primarily for the Army, have now started producing stores for the Navy and the Air Force also. The Service items produced by them include artillery guns, heavy mortars, naval guns, barrels and recoil system of guns, mountings, carriages and buffers for heavy and medium-calibre guns, light machine-guns and other small-arms, bombs, shells and various types of ammunition and high explosives, sea mines, depth-charges, parachutes, service clothing and mountaineering equipment.

As part of their peace-time functions, the ordnance factories are also using their utilisable spare capacity to cater for civilian needs. Their civic trade activities cover the five broad categories of ferrous, non-ferrous, leather and textile, chemical and general engineering. The last category includes scientific, optical and mathematical instruments, sporting arms and ammunition, metal castings and forgings and other miscellaneous articles. They recently started manufacturing three-ton and one-ton military trucks and four types of tractors.

Scientific Research

Scientific research under State auspices in India is carried out mainly through the Council of Scientific and Industrial Research and the various national laboratories or research institutes set up under its control and in universities and research institutes aided by the Council. The Council also grants fellowships to qualified persons who wish to pursue science as a career and disseminates scientific knowledge and information. It has also the responsibility of administering the "Pool for temporary placement of well-qualified Indian scientists and technologists returning from abroad". It maintains a National Register of Scientific and Technical Personnel in the country. In general, the Council is the chief vehicle of Government's policy for the promotion and co-ordination of scientific and industrial research in India.

Since the advent of Independence, a number of national laboratories and institutes have been set up by the Council at various centres in the country.

The Council has also set up a Rain and Cloud Physics Research Unit at New Delhi, Essential Oils Research Centres at Kanpur, Bangalore and Ootacamund and a Gas Turbine Research Centre at Kanpur. A Petroleum Research Institute at Dehra Dun is being planned.

The following laboratories are working: National Chemical Laboratory, National Physical Laboratory, Central Fuel Research Institute, Central Glass and Ceramic Research Institute, Central Food Technological Research Institute, National Metallurgical Laboratory, Central Drug Research Institute, Central Road Research Institute, Central Electro-Chemical Research Institute, Central Leather Research Institute, Central Building Research Institute, Central Electronics Engineering Research Institute, National Botanical Gardens, Central Salt Research Institute, Central Mining Research Station, Regional Research Laboratory, Indian Institute for Biochemistry and Experimental Medicine, Birla Industrial and Technological Museum, Regional Research Laboratory, Central Mechanical Engineering Research Institute, National Aeronautical Laboratory, Regional Research Laboratory, Central Indian Medicinal Plants Organisation and Central Scientific Instruments Organisation.

Thirty-eight rural scientific centres known as 'Vigyan Mandirs' have been set up generally at sites covered by Community Development Projects. Equipped with a laboratory each and manned by suitably qualified and trained personnel, these centres disseminate scientific knowledge among the rural population and educate them in the potentialities of the methods of science as applied to their day-to-day life.

The Department of Atomic Energy is responsible for formulating and implementing policies in all matters concerning atomic energy. The scientific and technical work of the Department is carried out by the Atomic Energy Establishment, Trombay, and the Atomic Minerals Division. The industrial activities of the Department are conducted by the Indian Rare Earths Ltd. and the Travancore Minerals Ltd.

There are eleven Hydraulic Research Stations under the Central Board of Irrigation and Power. The Central Water, Power

and Irrigation Research Centre, Khadakvasla (near Poona), is the pioneer hydraulic research station in India.

A Research and Development Directorate has been set up under the Ministry of Communications (Directorate-General of Civil Aviation). It is concerned with type certification, manufacture of aircraft and development of specifications for aircraft materials.

The Botanical Survey of India appraises the plant wealth in the country and maintains a National Herbarium and Botanical Museum in Calcutta.

The Zoological Survey of India at Calcutta maintains the standard zoological collections of India, identifies zoological specimens, collects information on the geographical zoology of India and brings out journals, monographs and books. Five regional stations have been established by the Survey at Shillong, Poona, Jabalpur, Jodhpur and Dehra Dun.

The Geological Survey of India, located in Calcutta and established more than a hundred years ago, is responsible for the preparation of the geological map of India which forms the basis for all geological work. The field work of the Survey is conducted through eight regional circles.

The Department of Anthropology at Calcutta is responsible for conducting anthropological surveys, including social, psychological, economic, linguistic, physical, genetic and instructional investigations. It also carries out research.

The primary role of the Survey of India, located in Dehra Dun, is to carry out topographical surveys and to prepare up-to-date maps.

The Forest Research Institute, Dehra Dun, conducts research in the utilisation of timber for constructional purposes.

The All India Radio maintains a research unit in New Delhi to investigate problems relating to the propagation and reception of radio waves and the design and performance of radio receivers.

The Railway Board has established a research centre at Lucknow with sub-stations at Lonavla and Chittaranjan to investigate problems referred to them by the railway workshops and the Central Standards Office (Railways).

The problems of road development and road materials, highways and bridge engineering, ports and harbours, etc., are dealt

with by the Roads Organisation functioning under the Ministry of Transport.

The Indian Standards Institution, functioning under the Ministry of Commerce and Industry, lays down standard specifications for materials and products.

The Indian Council of Agricultural Research, established in 1929, undertakes, aids, promotes and co-ordinates agricultural and animal husbandry education and research in India.

The Indian Agricultural Research Institute, New Delhi, is the oldest institution devoted to research in agricultural science. It has well-equipped laboratories and extensive farms for carrying out large-scale cultural investigations on food crops.

The Indian Veterinary Research Institute, Izatnagar, deals with veterinary diseases and their cure, while the National Dairy Research Institute at Karnal concerns itself with research connected with quality of milk and analysis of milk samples for quality control purposes. The Central Rice Institute at Cuttack and the Central Potato Research Institute at Simla devote themselves to problems of research relating to rice and potatoes, respectively.

There are eight commodity committees which devote themselves to research in specific commodities, namely, cotton, jute, sugarcane, coconut, tobacco, oilseeds, arecanut and lac. These committees have their own laboratories and research institutions.

The activities of the Directorate of Plant Protection and Plant Quarantine under the Ministry of Agriculture help research in many ways, though it does not undertake research itself.

The Central Marine Fisheries Research Station, Mandapam, carries out biological investigations in edible fish found in the coastal waters of the country. Research stations have been set up in Bombay, the gulf of Kutch, Visakhapatnam and the Andamans.

The Central Inland Fisheries Research Station, Calcutta, deals with inland fish—estuarine, riverine and lacustrine and pond fish.

The Central Fisheries Technological Research Station, Cochin, undertakes studies in fishing gear material, gear design and fishing methods.

Irrigation

India's natural waterways are more or less evenly distributed over the entire country. The ultimate goal of the development

of irrigation is the doubling of the irrigated area within 15 to 20 years. The additional food production resulting from this extension of irrigation will not only cover the present deficit but also provide, to some extent, for the future growth of the population.

The Bhakra Nangal Project, the largest multi-purpose project in India, estimated to cost Rs. 170 crores, consists of a 740-ft. high dam, with about 652 miles of canals and over 2,200 miles of distributaries and minors.

The Hirakud Dam Project harnesses the river Mahanadi and will provide irrigation to 5.7 lakh acres of land in Sambalpur and Bolangir districts in Orissa. The power house at the base of the dam, has an installed capacity of 1,23,000 kw.

The Rajasthan Canal Project estimated to cost Rs. 66.47 crores was sanctioned in July 1957. It envisages the construction of a canal taking off from the Harike barrage across the river Sutlej and has been divided into two parts.

The Damodar Valley Project comprises four storage dams at Tilaiya, Konar, Maithon and Panchet Hill with hydel power houses of a total capacity of 1,04,000 kw. attached to all the dams except Konar; three thermal power stations at Bokaro, Durgapur and Chandrapura with a total capacity of 6,25,000 kw.; an extensive power transmission grid and an irrigation barrage at Durgapur with canals and distributaries. The Tungabhadra Project of the Governments of Andhra Pradesh and Mysore comprises a 7,942 ft. long and 162 ft. high dam on the Tungabhadra river at Mallapuram and a system of canals and power stations on either side.

The Kosi Project, is a three-unit scheme, estimated to cost Rs. 44.76 crores, will, besides affording protection against floods, irrigate about 14.05 lakh acres annually in Bihar.

The Chambal Project, the first phase of which is being jointly executed by the Madhya Pradesh and Rajasthan Governments, consists of the Gandhi Sagar Dam, Gandhi Sagar Power Station, transmission lines, Kotah Barrage and canals on either side of the barrage.

The Nagarjunasagar Project is a scheme of the Andhra Pradesh Government and comprises the construction of a masonry dam on the Krishna river near Nandikonda village, about 100 miles from Hyderabad, and two canals one on each side of the river.

The Koyna Project, the first stage of which, estimated to cost Rs. 38.28 crores and inaugurated in January 1954, envisages the construction of a 208 ft. high dam across the river Koyna and a tunnel which will divert the waters of the river to ensure a drop of about 1,570 feet.

The Rihand Dam Project, estimated to cost Rs. 46.05 crores, includes the construction of a concrete gravity dam about 300 ft. high and 3,065 ft. long across the river Rihand near the village of Pipri in the Mirzapur district of Uttar Pradesh, about 29 miles south of the confluence of the Rihand and the Sone rivers.

The Bhadra Reservoir Project which is a multi-purpose project, estimated to cost Rs. 33.53 crores (revised) and scheduled for completion by 1961, across the river Bhadra in Mysore State, will irrigate 2.45 lakh acres of land in Shimoga, Chikmagalur, Chitradurga and Bellary districts and will have a power station with an installed capacity of 33,200 kw.

The Kakrapara Project may be regarded as the first phase of the development of the Tapi valley.

The Mackhund Project is a joint venture of the Governments of Andhra Pradesh and Orissa. This hydro-electric project harnesses the river Machkund which forms the boundary between the two States.

The Mayurakshi Project of the West Bengal Government is mainly an irrigation scheme although it also provides for the installation of a 4,000 kw. hydro-electric plant. Power from the project will be supplied to the Birbhum and Murshidabad districts in West Bengal and Santhal Parganas in Bihar.

The alarming deterioration of the Hooghly and the consequent threat of the extinction of the Port of Calcutta have reached a stage which requires immediate remedial measures. With the continuing reduction of upland supplies, the river has lost its capacity to transport the silt coming from the top to the sea. This has caused a serious bottleneck in navigation over the bars and crossings in the upper Hooghly.

The Ganga Barrage Project envisages the following principal components:

- (i) a barrage across the Ganga at Farakka ;
- (ii) a barrage across the Bhagirathi at Jangipur above the out-fall of the canal ;

(iii) a feeder canal, 26½ miles long, taking off from upstream of the Ganga Barrage on the right bank and outfalling into the Bhagirathi, downstream of the Jangipur Barrage.

An International Agreement on the Gandak Irrigation and Power Project between the Government of Nepal and the Government of India was signed on December 4, 1959. It is an inter-State project in which Bihar and Uttar Pradesh are the participating States.

Transport Authorities

To ensure proper co-ordination between the different modes of transport on the one hand, and Central and State policies, on the other, the Government of India has set up the Transport Development Council, the Road and Inland Water Transport Advisory Committee and the Central Transport Co-ordination Committee.

To co-ordinate the development of water transport on the Ganga, the Brahmaputra and their tributaries, a body, known as the Ganga-Brahmaputra Water Transport Board, was set up in 1952 by the voluntary co-operation of the Central and State Governments.

The National Shipping Board has been established to advise the Government on policy relating to shipping.

A Government-sponsored shipping corporation, known as the Eastern Shipping Corporation Limited, was set up in 1950, with an authorised capital of Rs. 10 crores. The management of the Corporation was taken over by the Government from the Scindias in August 1956.

The Western Shipping Corporation, registered in June 1956, with an authorised capital of Rs. 10 crores, will operate on the India-Persian Gulf, India-Red Sea, India-Poland and India-Soviet routes.

The Visakhapatnam Shipyard was purchased from the Scindias by the Government in March 1952, and its management has been entrusted to the Hindustan Shipyard Ltd., in which two-thirds of the capital are held by the Government.

The Government of the United Kingdom provided, under the Technical Co-operation Scheme of the Colombo Plan, a technical mission to survey possible sites and collect data for the establishment of a second shipyard.

For advising the Central and State Governments on the co-ordinated development of ports with special attention to minor ports, the National Harbour Board was constituted in 1950, consisting of representatives of the Government of India, the maritime States, major authorities, and non-official members representing trade, industry and labour. A sub-committee of the Board meets every year to screen and approve schemes for hydrographic surveys. The Board has recommended certain selected intermediate ports for intensive development.

The air transport has been nationalised, and the Indian Airlines Corporation and the Air-India International Corporation have been set up to operate air transport. Private aircrafts are permitted to carry freight.

Welfare Measures for Workers

The Indian Factories Act regulates the health and safety of workers in a factory. It also regulates the number of working hours as well as the employment of women and children. Cleanliness, ventilation, cooling, water-supply, lighting, etc., are enforced by the Act, which prevents over-crowding and the use of dangerous machinery. It abolishes the distinction between seasonal and perennial factories; provides stricter control, by licensing and registration; it regulates layout of new factories or extensions; it reduces hours of daily work for adults to nine, with a 48-hour week; it raises the minimum age for the employment of young persons from 12 to 13 and reduces their working hours from 5 to 4½; it lays down minimum requirements for the health, safety and welfare of workers. The provisions of the Act lighten the burden on the inspecting staff by laying responsibility primarily on occupiers of factories.

The Trade Dispute Act prevents and settles industrial disputes by mutual agreement among workers and employers. The Act provides for the settlement of industrial disputes through the medium of either a Court of Inquiry or a Conciliation Board. It makes a strike or lock-out illegal, if it is not directed to furthering trade or industrial interests. In order to improve the existing Acts, the Government of India has introduced a new Act to settle industrial disputes amicably. This provides for conciliation and arbitration before workers can resort to strikes.

The payment of wages to workers employed by a factory, railway or any industrial establishment, is regulated by the *Payment of Wages Act*.

Industrial Relations

Regional Labour Commissioners have been appointed by the Central Government for dealing with industrial relations in industries and undertakings in the "Central Sphere". The organisation is under the charge of the Central Government's Chief Labour Commissioner.

Industries within the "Central Sphere" include all industrial establishments owned or controlled by the Government of India.

Officers under the Chief Labour Commissioner have statutory powers of conciliation under the Trade Disputes Act. They are empowered to act as Supervisors and Inspectors under the Acts relating to payment of wages and employment of children in Railways and major ports.

Workmen's Compensation Act

The Workmen's Compensation Act makes it obligatory on all employers to pay compensation to workers or representatives of a deceased worker (worker as defined by the Act) in the case of injury sustained in the course of employment.

The Act defines clearly a "workman". It lays down the limits of liability of an employer. The Act makes a distinction between *partial* and *total disablement*. *Partial disablement* denotes either (a) disablement which is temporary and reduces the earning capacity of a worker or (b) permanent disablement which reduces the earning capacity of a worker. The Schedule I of Act cites a list of injuries causing partial permanent disablement, e.g., "loss of an arm, or leg above or at the elbow or knee respectively, loss of one's eye, etc." *Total disablement* denotes disablement, temporary or permanent, making a worker unfit for any work in which he is capable of being engaged at the time of the accident. Permanent disablement results from the permanent loss of both eyes, or from injuries specified in Schedule I of the Act.

There are seventeen wage classes. The rate of compensation is based on "the highest wage of the class and not on the mean wage." Compensation for death is calculated at 30 months' wages ;

for permanent total disablement it is estimated at 42 months' wages and at 84 months' wages for adults and minors, respectively. In the case of death of an adult, the minimum compensation amounts to Rs. 500.

The Workmen's Compensation Act provides for the appointment of a Workmen's Compensation Act Commissioner to adjudicate claims under the Act, or a Court may also adjudicate.

The effects of the Act have been beneficial. The employer is now cautious, avoids accidents, keeps the factory clean, and provides for adequate medical treatment for workers. Industrial life has been made more attractive.

The working of the Act is difficult. The nature and extent of disablement, the question of occupational diseases, the cause of the injury, etc. are hotly contested by both workers and employers. Although the Workmen's Compensation Act Commissioner is authorised to consult medical men the present system is not satisfactory.

Employment Exchanges

The function of an employment exchange is to reduce unemployment by finding jobs for persons. There is a large wastage of manpower, following lack of knowledge. In order to secure the optimum utilisation of manpower in a country, it is desirable that proper planning should be made in respect of the employment of human resources, and this is what is done by employment exchanges.

In a country employers want the right type of workers and a worker is keen for employment so communication between them is usefully made by employment exchanges. They explore all possible avenues of employment for workers. They try to eliminate unemployment by securing jobs for workers. They secure the right job for an individual and devise measures to relieve seasonal unemployment by transferring workers from one area to another. Employment exchanges sometimes take the responsibility of negotiating wages. An employment exchange arranges the practical training of workers, and it becomes successful if employers co-operate with the exchanges by indicating in advance their requirements.

Although there are many employment exchanges, they have touched only the fringe of the problem. Similar is the experience of the Pakistan employment exchanges.

Employment exchanges in India and Pakistan have not made much progress. Workers have little confidence in them. The exchanges have no legal powers of obliging employers to recruit workers through them. Employers use the exchanges only when it suits them to do so. They at present are used mainly by Governments. In order to derive benefits from employment exchanges, it is necessary to give them legal powers. They need to be reconstituted in consultation with commercial organisations.

The National Institute of Industrial Psychology

The National Institute of Industrial Psychology is a useful institution in the U.K. It is run by employers of labour. It investigates working conditions of factories to discover improved methods. Investigators live the life of workers during the period of investigation. They examine (a) the quality, capacity and efficiency of a plant, (b) the recruitment and training of a worker, (c) the hours of work, and (d) the elimination of wastage in a factory. A similar institute has been started in India.

Indian Standards Institution

The Indian Standards Institution fixes Indian standards. It is divided into five sections, namely, engineering, building, chemicals, textiles, food and agricultural products. Each section is controlled by a Divisional Council.

The Institution helps improve the standard of Indian goods. Notable functions of the Institution include the preparation and promotion of standards on national and international basis in respect of structures, commodities, materials, practices, operations, etc. It considers and recommends national standards for the measurement of length, weight, volume and energy. It promotes standardisation, quality control and simplification in industry and commerce. It co-ordinates the efforts of manufacturers and consumers for the improvement of materials, products, appliances, processes and methods. It provides for the registration of standardisation marks in the case of products. It arranges for the

examination and testing of commodities, processes and practices. It undertakes investigations and researches, if necessary.

In order to promote exports of Indian commodities, the Government is considering introducing legislation to ensure quality control in respect of exports.

Taxation

The Government requires money to administer so it obtains it from the public in many ways, of which taxes are important. A tax is a compulsory contribution made to the Government by an individual, irrespective of services rendered to him by the State. Taxes are of two kinds, namely, *direct* and *indirect*. A direct tax is collected from a person, who is required to bear its burden. An indirect tax is levied upon goods and passed on to consumers in the shape of prices. The income-tax is a direct tax, while import, export, excise duties are examples of indirect taxation. The direct tax has the advantage of a low cost of collection. It makes the yield of the tax certain and evasion becomes difficult. As a direct tax falls straightaway on a person, it encourages responsibility. It has the merit of securing quality and justice in assessment. As it is direct, people feel the pinch of it more than if they are made to pay in an indirect way as in the case of indirect taxation.

Indirect taxation is easier to collect and people pay it without knowing about it. It is a convenient method of collecting taxes from the general public. It is convenient to pay, as it is collected in instalments. When an indirect tax is levied on a commodity of general consumption, a small tax can bring in a large revenue, e.g., salt and sugar taxes. It is possible to obtain elasticity in indirect taxes. It can be adjusted according to needs of the Government. It has, nevertheless, certain defects. Its cost of collection is proportionately high. It is inequitable, as it cannot be adjusted to the capacity to pay. Rich and poor are made to pay equally. Unscrupulous business men may take the advantage of an indirect tax by raising the prices of commodities much more than what is justified by it. It may disturb trade and industry. In an indirect tax, it may be difficult to trace the incidence.

A tax system contains both direct as well as indirect taxes, and a proper balance between the two is a sign of soundness.

Canons of Taxation

Adam Smith enunciated four principles of a tax, namely, (a) equality, (b) certainty, (c) convenience, and (d) economy.

Equality supports the principle that everybody should pay to the State according to his ability. A tax should be certain. The time of payment, the manner of payment, and the amount to be paid should be definite and known. It should be convenient for the tax-payer to pay. The cost of collection should be kept at a minimum level.

Income-Tax

Governments derive a large amount of revenue by means of income-tax. It may be proportional or progressive. In the former system of tax the rate of tax is uniform on all incomes; every person pays in proportion to his income. But this system is objectionable on grounds of equity and justice. It is argued that if everybody pays at the same rate the person with a small income is made to bear a heavier burden than the rich, as the value of money is greater as far as the former is concerned. The sacrifice made by the former is proportionately higher than that of the latter. So a tax should be paid not only according to income but the rate of tax should vary according to income, which becomes a progressive tax.

The Government of India has adopted a progressive system of taxation but it appears that rates of income-tax and super tax in India are rather high, compared with other countries. So they act as deterrents to industrial expansion and individual savings. In order to encourage production and individual initiative, taxes should be cut.

Tax Refund

Limited companies generally pay dividends to shareholders in the form of dividend warrants which are cashed to the credit of the shareholders concerned. Along with these dividend warrants a tax "refund" is also enclosed. In this "refund" the company indicates the amount of income tax which the company has paid on the dividend on behalf of the shareholder who is, therefore, entitled to claim a refund of the tax from the Government by

producing the "refund" in case the tax deducted by the company is higher than the tax which he is liable to pay under the law. A specimen copy of the "refund" is reproduced.

MILLS, LIMITED.

To

Mrs. K. Datta,
Panihati P.O.,
24-Parganas,
Bengal.

Sm. K. Datta

Registered Office :
Strand Road,
Calcutta - 1,
3rd August, 1962.

Status: RESIDENT

Dear Sir,

Warrant for Rs. 140 being the amount of Dividend for the year ended 31st December, 1961 at the rate of Rs. 2/- (net Rs. 1.40) per share on 100 ORDINARY Shares less tax as detailed below :—

DETAILS OF TAX DEDUCTION

| | | |
|----------------|----------------------------|----------|
| Rs. 50/- | ... being Income Tax @ 25% | |
| | being Union Surcharge @ | |
| | 3.75% | |
| Rs. 10/- | being special Surcharge @ | Total 5% |
| | 1.25% | |
| Rs. ——— | being Super-tax @ | % |
| <hr/> | | |
| Total Rs. 60/- | ... | |
| <hr/> | | |

- We certify: (i) that this Dividend was declared at the Annual General Meeting held on 12th June, 1962 to consider the accounts of the Company in respect of the accounting year ended 31st December, 1961.
- (ii) that the tax as specified above has been deducted from the amount of Dividend, and
- (iii) that it will be paid to the Central Government within a week from the date of this certificate.

Yours faithfully,
K. & CO., LTD.
Managing Agents.

Sales Tax

The State Governments levy tax on the sale of goods within their areas. It is an indirect tax and the incidence falls on consumers. The aim of the tax is to collect a large amount of revenue by imposing the least amount of burden on consumers.

West Bengal Sales Tax

In West Bengal the sales tax is levied at five per cent. A dealer whose gross turnover during the year exceeds the taxable amount is liable to pay the sales tax.

The taxable amount of turnover which attracts a tax is defined in the following way:

(a) in relation to any dealer who imports for sale any goods into West Bengal, or himself manufactures or produces any goods for sale, 10,000 rupees; or

(b) in relation to particular classes of dealers not falling within clause (a) of the West Bengal Sales Tax Act such sum as may be prescribed;

(c) in relation to any other dealer, 50,000 rupees.

No tax is payable on the sale of goods as specified from time to time.

No dealer shall, while being liable to pay tax, carry on business as a dealer unless he is registered and unless he possesses a registration certificate.

Any dealer whose gross turnover during a year exceeds Rupees 10,000 may, notwithstanding that he is not liable to pay tax, apply in the prescribed manner to the prescribed authority for registration.

Every dealer who is registered by an application made by him, shall, for so long as his registration remains in force, be liable to pay tax.

Every dealer who is registered is entitled to realise sales tax at the scheduled rate from consumers, although he is exempted from the payment of sales tax on his own purchases which are required for his business.

Questions

1. Do you agree with the view that State business undertakings should be organised in the form of limited companies to ensure efficient management? Give arguments for your answer.
(B. Com., Burdwan, 1962).
 2. Discuss the advantages and disadvantages of indirect taxation. In India should revenue be raised more by indirect taxes than by direct taxes? Give reasons for your answer. (Delhi, Business Diplo., 1962).
 3. Examine the present taxation policy of the Government of India as well as the State Governments. It is said that new industries cannot grow under such a taxation policy. Do you agree? Discuss with reference to any important and potential industry.
 4. Explain the functions of Employment Exchanges. To what extent have these Exchanges succeeded in achieving their objects in India?
(Calcutta, M.A., 1950).
 5. What do you understand by "State Trading"? Is it desirable in the interest of the development of national commerce of a country? Examine with special reference to India. (Calcutta, M.A., 1950).
 6. What do you wish to be the relation of State to industry in free India? Discuss thoroughly. (Agra, B. Com., 1956).
 7. What in your opinion should be the attitude of the State in relation to industry? Illustrate your answer with reference to conditions in India. (Rajputana, B. Com., 1960).
 8. Discuss the various ways in which the Government may help Indian industries in the post-war period. (Agra, B. Com., 1961).
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CHAPTER XXXVI

SCIENTIFIC MANAGEMENT AND RATIONALISATION

Definition of Scientific Management

Dr. Frederick Winslow Taylor is the pioneer of scientific management of industries. By continued experimentation and research Dr. Taylor found out how it is possible to step up labour efficiency by scientific management of labour. He demonstrated in practice that by motion, time and fatigue studies, it is possible to improve efficiency, of a worker by telling him how to work with implements.

Later the scope of scientific management was extended to cover other aspects of industrial management. It is realised that industrial management can neither be allowed to rest on past laurels nor can it be allowed to adhere to antiquated and conventional methods. In order to remain competitive, it is necessary for every industrial management to adapt itself to continued innovations based upon experimentation and research. Scientific management denotes dynamic changes for improvement. It aims at optimum gains from methods, men, materials, machine and money. It denotes control beginning from planning the layout of a factory to the distribution of the product. Although management and administration are popularly used to denote the same thing, in practice administration is concerned with policies and decisions for the organisation of an industry. So there is more scope for scientific analysis and experimentation in management than in administration.

Basis of Scientific Management

Scientific management of an industry includes experimentally, selection and training of workers, proper allotment of tasks, selection of materials and equipment, factory environment, functional foremanship, wage incentives, cost accounting and psychological changes.

It denotes continued experiments and research in respect of all processes of production, including labour, equipment, materials

and working conditions. Production is the result of various components, and constant experimentation leads to better combination and higher yield. The experiments centre mainly on human resources, so labour is examined in respect of time, motion and fatigue.

By examining the time taken by a worker in doing a piece of work, it is possible to fix a standard time for a standard task. This is possible if working conditions are standardised. The standard time depends on changes in the training of workers, their equipment, materials and working conditions. So the standard time varies from unit to unit. Experiments leading to the formulation of a standard time for a standard task ensure efficiency.

Motion study helps find out how a worker can handle his work efficiently. More often than not, a worker wastes his time and energy by unnecessary movements. An ignorant worker works in a round-about way. By proper scientific training it is possible to improve efficiency and eliminate wastage.

Fatigue is important in industrial relations. Although some amount of fatigue is unavoidable, attempts are made to mitigate it as far as possible, because fatigue affects labour and undermines efficiency. Attempts are being made scientifically to intersperse work with leisure in such a way that fatigue may be reduced to the minimum.

Efficiency depends on the selection of workers and their training. Workers need to be scientifically selected considering their physical and mental fitness. Training plays an important part in labour efficiency. America provides opportunities for training. The Department of Education in Washington offers courses in engineering, science and management. There are several institutes of Applied Arts and Sciences in New York for training. The New York State School of Industrial and Labour Relations is doing good work in this direction.

The selection of materials affects production. Efficiency depends on the selection of raw materials. In order to ensure uniformity of products, standardisation of raw materials is necessary. This also helps compare the output of workers. Research and experiments assist in discovering the method by which raw materials can be used profitably. The use of by-products helps eliminate wastage.

Machinery and equipment help production. They should be up-to-date and efficient, and should be maintained in proper working order. Scientific management is connected with scientific mechanisation. Machinery should be handled properly.

Factory conditions affect efficiency. A healthy and cheerful environment contributes to efficiency. The factory atmosphere depends upon climate, ventilation, colour, heating and cooling devices, lighting, floor space, etc. Atmospheric conditions may affect production, e.g., humidity is necessary for running a yarn factory.

Dr. Taylor thought that higher wages improve efficiency. His differential piece wage system aims at paying an efficient worker at a higher rate per unit than the rate which is paid if he fails to produce a certain amount of output within a standard time. Wage incentives help efficiency.

Scientific management assumes the application of an efficient cost accounting system. Cost accounts help scientific price-fixing and making correct estimates. Cost control is necessary for eliminating losses and wastage.

Scientific management denotes healthy factory conditions so that the workers can work efficiently. Control and supervision take three forms, namely, the line, military or departmental organisation, the line and staff organisation and the functional organisation.

The Line Organisation

The military or line organisation denotes the application of military discipline in business. Authority is delegated from the top in a vertical line. As a military order is passed through colonels, majors, captains, lieutenants, etc., so a business order emanates from the General Manager to the Departmental Manager, then to the Superintendent and later to the foreman and so on. The business is sub-divided into various departments, which are placed in charge of a departmental head. The latter takes instructions from the boss who is higher in command. A foreman is at the bottom of the command and many workers are placed under one foreman who is responsible to his immediate boss. This type of line or military organisation is infrequently found in practice, because once a factory develops the burden of

responsibility broadens in such a way that one or a few individuals cannot carry the responsibility.

The line and staff organisation is a modification of a pure line organisation. In this type of organisation, the line officers or the departmental heads are assisted by specialists and experts, who act merely as advisers and possess no executive powers. The operational side and researches are left to the charge of the staff experts but the executive function remains with the line bosses.

Functional Organisation

In functional organisation supervision is divided into several functions and each function is entrusted to a functional foreman or functional boss, who possesses full executive powers. He is not merely an expert in an advisory capacity as is found in a line and staff organisation. Dr. Taylor pioneered functional organisation by stating that functional management "consists in so dividing the work of management that each man from the assistant superintendent down shall have as few functions as possible to perform. If practicable the work of each man in the management should be confined to the performance of a single leading function. Certainly the most marked outward characteristic of 'Functional Management' lies in the fact that each workman, instead of coming in direct contact with management at one point only, namely, through his gang boss, receives his daily orders and help directly from eight different bosses, each of whom performs his own particular function". Taylor referred to eight bosses, namely, the gang boss, the speed boss, the inspector, the repair boss, the order of work or the routine clerk, the instruction card man, the time and cost clerk and the shop disciplinarian. The gang boss prepares the schedule of work, allotting work to every worker and giving him equipment. He tells every worker how to do his work efficiently. The speed boss takes care to see that the work is properly done, using the best speeds and feeds, as shown in the production card. He gets work done by workers in the minimum time. He may demonstrate before workers how to do the work. The inspector looks after the quality of work, and the speed boss and workers have to satisfy the inspector's tests. The repair boss has to see that a worker looks after the machine properly by keeping it free from dust, rust and scratches. He takes all steps

necessary for the proper upkeep of machinery and accessories. The routine clerk compiles daily lists, indicating the exact order in which a work has to be done by machine or men. The instruction card man prepares the instruction card, which is made by the Planning Department for advising the executive bosses about the piece work, cost order number, special fixtures, tools, number and technique of operations, the speed and feed which is used and the time within which each operation has to be completed. The time and cost clerk sends to the workers through the instruction card the information which they require for the purpose of recording time and cost of the work. He also obtains from them returns in order to estimate time records and calculate costs. The shop disciplinarian enforces discipline throughout the workshop by eliminating irregularity and by enforcing proper conduct. He also mediates in disputes among workers, and sometimes he readjusts wages. Under functional foremanship, Routine Clerks, Instruction Cardmen and Cost and Time Clerks send their plans from the planning room, and gang bosses, speed bosses, inspectors and repairs bosses advise the workers how to work according to instructions as recorded on the cards. Although this type of organisation trains up bosses quickly in specialised jobs, the workers may get confused, as they have to receive instructions from several bosses.

The mere application of scientific principles in management will not resolve business problems. In order to become effective, scientific management must be combined with scientific outlook. There must be a psychological change on the industrial front. Industrial relations must improve by the development of a scientific outlook among workers and employers. Production depends on the co-operation of both. Workers must realise that they are to work honestly and efficiently. At the same time employers must appreciate the role of workers in industry by providing them with suitable remuneration in kind and cash. Working conditions must be improved and efficiency must be rewarded by higher wages. A high standard of efficiency will help contribute to the well-being of both workers and employers. Workers remain content with high wages, and employers earn bigger profits.

Scientific management in the Taylorian sense failed to make much headway and it is now regarded as an abandoned cult due

to difficulties of implementing it in practice. The introduction of scientific management is hampered by the lack of standardisation of machine and materials and by difficulties of selecting the proper personnel. Employers oppose the system as they are conservative. They complain that scientific management is likely to be expensive. It is stated that once the system is adopted, it will prove burdensome during a period of depression, and it will not be possible to dismantle the system without undermining efficiency. Although the system is adjustable to changes by stages, employers dislike it and complain that changes, following the introduction of scientific management, may interrupt working.

Scientific management is opposed by workers. It is stated that men are overworked and efficiency suffers. Scientific management provides, in theory, for healthier conditions of work, eliminating fatigue. Initially the system may create unemployment by stepping up efficiency but more employment is created if it helps improve standards of living. Scientific management may fail to reward labour according to efficiency, as employers are inclined to cut wage rates if efficiency increases. It is true that the system mechanises labour and a worker is made to function like a machine without any initiative but experience indicates that labour rarely discloses any initiative. It is also suggested that by intensive specialisation, a worker is made dependent on a particular employer, because specialised training hampers mobility. Objection emanates from the political angle. Scientific management aims at rewarding workers according to efficiency and differential wage payments may threaten solidarity of workers. It is difficult to unite workers, having different wages.

Labour Management

A worker is now regarded not as an automaton. He is considered an important social being in production. The trend is to improve efficiency combined with the increased welfare of the workers. Satisfied and well-contented labour is necessary for efficient production. In order to improve working conditions every business is now taking steps to organise its labour department in a rational way.

In India labour management is usually entrusted to a Labour Officer. He occupies an important position as a business executive. His job is to act as a liaison officer between management and

labour. He is virtually in charge of organising industrial realtions. His duty is to inculcate morale, discipline and good conduct among labour by holding consultation with workers if required.

In large-scale production there is divorce between management and workers. Relationships are based on cash nexus, and they do not help healthy working. In order to improve the morale of workers it is necessary that they are made to feel that they are a part and parcel of the organisation in which they work. They should be made to realise that they are essential in production. They should work as if the organisation belongs to them. This attitude can be developed if care and attention are paid to develop personal relations with workers. This is what a Labour Officer is expected to do. If the spirit of personal relationship and responsibility is developed, efficiency will be increased and a contented labour force will grow.

Industrial Psychology

A worker is not a machine. So efficiency has to be obtained by increasing welfare. Consideration is being increasingly paid to a study of the mind of workers during work. The mere speeding up by offering monetary rewards does not contribute to sound production. What is aimed at consists in eliminating defects and wastage by applying principles of industrial psychology in production. Beginning from recruitment up to the time of retirement scientific methods are now employed to attain the best possible result.

Workers are selected by locating the source of supply and by choosing the right types. In India labour is recruited haphazardly because of a plentiful supply. Recruitment for the mill industry is in the hands of a jobber who virtually controls the destiny of a worker. Labour for mines, public works and plantation is obtained through contractors and overseers who abuse their position. Some improvement has been made in the recruitment of *badli* labour through labour officers, especially in Bombay and Ahmedabad. Government employment exchanges are also doing some useful service in recruiting labour by scientific tests.

The selection of the right man for the right job is necessary for efficient production. In order to select candidates various tests

are employed. Intelligence tests help measure scholastic aptitude. Personal likes and dislikes are found by applying interests tests. Aptitude tests are employed for discovering latent abilities of a person. Personal tests help find out one's attitude to social life. Before selection trade tests are applied in order to find the suitability of a particular candidate for an occupation. One is classified as a novice if he has no trade ability. An apprentice knows something of his trade. A skilled worker is considered competent to undertake any work connected with his trade while an expert is able to do his work with superior skill. The latter can be entrusted with the responsibility of a work. Although all tests need not be applied for recruitment, the application of one test or another is expected to produce good results.

After selection the next step in factory employment is to insist upon a thorough medical examination of a candidate. This will help place a worker on the right job which suits his constitution. Wastage can be saved by eliminating bad health and sickness.

After selecting a worker care and attention should be paid to placing him on a right job which suits his temperament and capability. This is done by giving vocational guidance to a worker. Efficiency suffers if a man does not like his work or even if he finds that the work does not require the application of intelligence he possesses. It is, therefore, necessary that after judging the capabilities of a person he should be placed on a job which offers scope for personal development and contentment. In order to check on a new worker it is useful to keep a record of the quality of the work done by him, of the amount of wastage involved in his work and of omissions which are made. Such a record should be followed up and the defects should be rectified. If the latter is not possible he should be changed.

For producing efficient workers it is necessary to provide proper vocational training. This may be given when a worker is on his job. Such a system is good as it eliminates unnecessary transfer and adjustment. Training is arranged at organised centres. Various training schools and institutions have lately been established by the Government or private bodies for giving vocational training. The All India Council for Technical Education has set up four technological institutes for giving vocational training. Employment Exchanges also arrange for training.

Before fixing wages on a scientific basis it is necessary to define and evaluate a job. This will help find the relative merit of each job. Once this is done it becomes easier to give a right career to a worker. This helps an employer to assess individual merit. Under such a system workers also feel that justice is being done to them. As an employer is interested in getting the best out of a worker it is necessary that promotion and transfer be based on merit and efficiency. If proper job evaluation and merit rating are done it becomes easier to base wages, transfer and promotion on a scientific basis. This produces contentment.

One of the main functions of the Labour or Personnel Officer is to deal efficiently with retirement, termination and dismissal of workers. What he is expected to do is to maintain the morale of the labour force. About retirement, the Personnel Officer should take steps to ensure that a retiring worker leaves with an impression that the firm has treated him well. The worker should also be made to feel that on his retirement the firm will continue to take interest in his welfare.

Instances may occur when a business is obliged to terminate the service of an employee for some reasons. For example, workers may become surplus, or an employee may have to be laid off for inefficiency. In such cases the Personnel Officer should impress upon the worker that the work of a dismissed employee is not in the interest of the firm. The worker should feel that his case is considered carefully. On terminating the service of a worker it is necessary to get all assets of the firm back from him which he holds in custody. The usual notice of discharge must be given and it is preferable to dismiss him by paying fully instead of by a notice as during a notice period the worker may prove to be a drag.

In the event of dismissal it should be examined impartially. Before taking any action on the report of a superior officer it is necessary that a worker's point of view be studied carefully. The worker should be made to realise that his conduct leaves no choice in the matter. No arbitrary action should be taken as it demoralises the employees.

Rationalisation

Industries in Germany made great headway through rationalisation during World War I. Subsequently, Japan gained indus-

trial and commercial superiority by adopting rationalisation. The Balfour Committee in Great Britain suggested standardisation and industrial research in order to improve technical efficiency.

It is found that production outstrips consumption, causing several economic evils, such as loss of profits, decay of industries, unemployment, etc. So the economic system needs to be planned on a scientific basis for increasing economic well-being. Rationalisation denotes re-organisation of industries on up-to-date and scientific methods for obtaining maximum economies.

Rationalisation denotes scientific management of industry, simplification and standardisation of the processes of production. It may include a scheme of amalgamation of competing units in one simple undertaking under centralised control and management in order to achieve economies of large-scale production. It also denotes a combination of the producing units which set up a common selling organisation for regulating output, prices, and markets.

Rationalisation may imply the elimination of inefficient units of production and concentration of production on the most efficient ones. It involves the scrapping of old machinery, writing off of superfluous assets and reduction of overhead costs. It denotes scientific management of labour and an improvement in efficiency. Rationalisation aims at a balanced economy by adjusting production to demand. It helps improve efficiency and reduce prices.

Rationalisation is a wider term than scientific management, which is normally applied to existing units, but rationalisation may comprise new units. Scientific management puts special emphasis upon the organisation of the labour force, but rationalisation covers all processes of production right up to distribution, including transport, advertisement and marketing. Industrial combinations are an important segment of rationalisation, but scientific management has little to do with such amalgamations. Scientific management is technical in its approach, while rationalisation is a socio-commercial cult. It aims at stepping up material prosperity, combined with a higher standard of life. It implies better wages, and an increase in the economic welfare of the community.

Rationalisation aims specifically at standardisation, and simplification leads to specialisation. Once an industrial unit

concentrates and specialises in a particular line of production, the entire machinery of production becomes simple, leading to optimum economies.

It is found that mechanisation follows standardisation and specialisation, but rationalisation does not necessarily mean mechanisation. Rationalisation denotes that improved processes will be adopted on reasonable calculations and it makes no difference whether more manual labour or more machinery is introduced for the sake of greater efficiency.

Rationalisation could be confused with intensification. Men and machinery are worked at greater speed without any technological improvement. Such a step may enhance production for the time being, but it will ultimately wear machinery quickly and undermine labour efficiency.

Arguments for Rationalisation

It is claimed that rationalisation introduces business stability by eliminating wasteful competition. It can adjust production to demand. It maximises labour efficiency by selection of workers and allotment of tasks among them according to aptitude and ability. Wastage is eliminated by scientific application of men, machinery and materials. Consumers are assured of quality goods at cheaper prices through standardisation, specialisation and mechanisation. Rationalisation implies co-operation among producers, who pull together in research, experimentation and scientific knowledge. Rationalisation benefits producers by increased profits, workers are rewarded by higher pay and other amenities and consumers gain through quality goods at cheaper prices. So rationalisation maximises human welfare.

Difficulties of Rationalisation

Despite theoretical advantages, rationalisation is difficult to practise. Employers resist rationalisation, as they are inclined to stick to prevailing systems. Other things apart, producers argue that innovations are expensive and there is no guarantee that they will prove economical. Employers also fear that once rationalisation is adopted, continued scrapping of equipment is necessary to keep it up-to-date. Although specialisation has some merits, it is feared that in the event of a depression losses may

be irredeemable. Rationalisation may make the size of a unit too unwieldy to be managed with efficiency. Personal touch and initiative may be destroyed. It is stated that rationalisation by eliminating competition may produce all abuses of a monopolistic combination. In the internal organisation of a rationalised unit, departmentalisation and functionalisation may be carried so far as to imperil co-ordination and co-operation. Workers resist rationalisation on the ground that the system destroys initiative and a worker is made to work like a machine. Overwork undermines health and efficiency. It is further argued that workers are not allowed to share fully in the increased efficiency, which may flow directly from their efforts. Although cheaper goods, combined with higher wages, may ultimately widen productivity and prosperity, rationalisation is likely to cause unemployment, and in the absence of effective ameliorative measures workers can be hard hit.

Rationalisation in Indian Industries

Although the pace of rationalisation in Indian industries is slow, progress has nevertheless been made. The Indian iron and steel industry has achieved considerable progress towards simplification by reducing varieties in production. The operation of furnaces has been improved by research. The introduction of 'Scrap Carbon Process' in steel making is an improvement. A new method has been worked out at Jamshedpur utilising hundred per cent of steel scrap. Researches have been made for better utilisation of coal in steel industries.

Rationalisation is being introduced in Bombay and Ahmedabad cotton mills. Ring spinning and weaving has effected considerable economies in Bombay mills. Good progress has been achieved in loom sheds. Universal winding machines have been introduced. Air-conditioning plants have been installed, raising efficiency of workers. Increased production has been possible by the introduction of vacuum-stripping plant, automatic looms and ring spindles.

The scope for rationalisation of the jute industry is great. Machines are out of date, and they need overhauling. Vigorous researches have been taken on hand to make better utilisation of raw jute. The Indian jute industry must be renovated with high-speed machinery in order to compete with foreign manufacturing units. It is suggested that the modernisation of the industry

would be difficult because the industry is privately controlled; secondly, because of the question of foreign exchange involved, and thirdly, because new types of machinery are likely to displace some part of the labour force. None of these reasons should be allowed to prevent modernisation, because the industry cannot be allowed to fall into obsolescence. The fact that the industry is privately owned and controlled should be an advantage, and not a difficulty, in planning schemes of modernisation, the productive nature of which should give them a strong claim to a generous allotment of foreign exchange. In any case the purchase of jute mill machinery and equipment represents sterling or other soft currency expenditure. Modernisation inevitably means some economy of labour, particularly unskilled and semi-skilled labour, although probably over a period there would be no greater displacement than that involved in normal wastage if the latter was not made good. But putting the proposition in its most elementary terms there can be no modernisation without tears—the tears in this case being the substitution of a number of machine operations for what are now manual tasks, and a consequent reduction in the number of hands employed and probably the industry's wage bill. This is the central issue which Government has got to face. A number of mills have already carried out modernisation schemes, incorporating the introduction of such things as high-speed spinning machinery. A gradual adjustment of labour to the changed conditions has been effected. But the number of mills which have modernised to the full extent of to-day's technological advances is small, and modernisation in the real sense would involve facing up to a much bigger problem of redundant labour than has yet been encountered.

The Indian sugar industry requires an urgent dose of rationalisation. Although the recovery of sugar has improved, considerable leeway has to be made up in improving the quality of cane. Better utilisation of by-products is urgently called for.

Rationalisation is also being introduced in the Indian collieries. Mechanisation is becoming popular. There is a big scope for improvement in the form of amalgamation of smaller collieries. Researches are under way for the better use of inferior coal, and an indiscriminate wastage of metallurgical coal is being prevented. Sandstowing is being introduced to eliminate accidents. Washing is being insisted upon for preventing wastage.

Questions

1. What do you understand by "Scientific Management"? Explain clearly the salient features underlying it. (Allahabad, B.Com., 1961).
 2. 'Scientific management involves in its essence a complete mental revolution on the part of the workmen and an equally complete mental revolution on the part of those on the management side'. Examine this statement critically. (Allahabad, B.Com., 1958).
 3. 'The most obvious advantage of scientific management is the additional output that follows a more intensive and better directed division of labour and fuller utilization of plant and capital resources.' Comment fully upon this statement and criticise. (Allahabad, M.A., 1950).
 4. What do you understand by 'Rationalization of Industry'? Is it the same thing as 'Scientific Management'? Explain. (Allahabad, B.Com., 1950).
 5. What is "Rationalization"? Discuss the problem of its application to Indian industries. (Bombay, B.Com., 1947).
 6. Write a critical note on Rationalization with special reference to Indian industries. (Agra, B.Com., 1943).
 7. Of two large-scale organisations, one follows the 'line' principle and the other is organised on the 'line and staff' principle. Discuss their relative efficiency, giving reasons for your answer. (Bombay, B.Com., 1941).
 8. What is functional organisation? What general principles must be observed in building up this type of organisation? (Bombay, B.Com., 1944).
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CHAPTER XXXVII

FINANCING OF INDUSTRY AND TRADE

Capital is important in production. It is obtained by abstinence from consumption. The definition hardly explains its importance in the creation of economic values. It should denote command over purchasing power. The purchasing power may, in many cases, arise from abstinence. But there are cases where abstinence from consumption on the part of either the lender or the employer of capital does not appear to have any bearing on the acquisition of purchasing power. For example, the Government of India issues Treasury bills in favour of the Reserve Bank of India which, against the bills, places at the disposal of the Government such amounts of purchasing power as are permitted under rules relating to the note issue. The acquisition does not originate from abstinence on the part of the lender or the user of capital.

An economic activity requires the use of purchasing power. A manufacturer is required to maintain and/or use (a) factory, plant, machinery, tools, implements, and accessories, and (b) raw materials, labour, services of technicians, office establishment, services of specialised agencies for advertisement, communications, conveyance, etc. They require a power to purchase their uses. The items classed (a) in the preceding paragraph may be referred to as 'fixed capital' because their capacity for service is not exhausted by a single use in production and they do not, therefore, call for frequent replacement. The items classed (b) may, on the other hand, be called 'circulating capital' because they are used in the processes of production, so they need replacement.

The operations of 'production', manufacturing or agricultural, are summed up as 'industry'. The operations of 'distribution' and 'consumption' are problems of 'trade'. In trade articles are obtained to be sold to intermediary traders or consumers. Fixed capital therefore is important in industrial resources, but fixed capital for a trader includes (a) office buildings, furniture, fittings and (b) preliminary and organisational expenses, and other mis-

cellaneous expenditure benefits of which are spread over a number of years.

The agencies which supply capital to trade and industry constitute a money-market. A money market is well organised if the various agencies and trade and industry bear distinguishable relationship to each other.

An investigation shows that beginning from early days up to the middle of the 18th century, industry and trade operated within well-defined organisation, called trade-guilds, and they obtained money through regular and recognised channels—shroffs, multanis, indigenous bankers, money lenders, well-to-do zemindars, mahajans, and customers themselves, especially in the case of small craftsmen. These various agencies were attached in the case of small classes of trade and industry in such a manner that an organised money market existed in early days.

With the advent of the East India Company the economy of the country underwent profound changes. Foreign trade was disorganised, local trade changed its past directions, political chaos and a general state of insecurity caused losses to shroffs and money lenders. Changes in methods and directions of industry and trade and considerable reduction of resources of the money lenders threw the money market out of gear. The agency houses in Calcutta and Bombay established under the patronage of the East India Company supplied foreign exchange and financed industries working on western lines. An attempt was made about the year 1770 by the agency houses to establish banks, such as the Bank of Hindusthan under the auspices of Messrs. Alexander & Co., and the Calcutta Bank sponsored by Messrs. Palmer & Co. Many banks independent of the agency houses also came into existence, namely, the Bengal Bank in 1784, and the General Bank in 1786. Such a state of affairs continued until in 1806 the East India Company found it necessary to establish a state-aided Presidency Bank in order to maintain its credit (which was suffering, as was evident, from the heavy discount on Treasury bills), and facilitate borrowings by the Government. The bank, originally known as "The Bank of Calcutta", was later called "The Bank of Bengal" from the year 1809, when it was granted a charter. Two other Presidency Banks were established, e.g., the Bank of Bombay in 1840, and the Bank of Madras in 1843. The East India Company, being apprehensive of adverse competition

from the agency houses, opposed the establishment of other banks. But in spite of its opposition many banks with Head Offices in England were granted charters to function in India in respect of exchange, deposit, and remittance business.

The collapse of the agency houses during 1829-32 as a result of speculative transactions, the disappearance of the opposition of the East India Company and the introduction of the principle of limited liability of joint stock banks in 1860 brought to an end the second period in the history of the Indian economy.

The present period began with the establishment of the Allahabad Bank, the Punjab National Bank, the Alliance Bank of Simla and the Oudh Commercial Bank during 1870-1900. A number of important banks, such as The Bank of India, The Bank of Baroda, The Central Bank of India, etc., came into existence during 1906-1913. The Presidency Banks were amalgamated into one bank called The Imperial Bank of India which was regulated under a special Act. The State Bank of India was established to take over the Imperial Bank of India from July, 1955. The majority of shares in the State Bank are held by the Government. The Reserve Bank of India was inaugurated in 1935. Banks having foreign Head Offices function here and they transact considerable foreign exchange business.

The Indian money market consists of the following constituents—the Reserve Bank of India, the State Bank of India, the Foreign Exchange banks, the Indian joint-stock banks, the loan companies and the co-operative societies, the indigenous banks, money lenders, well-to-do individuals belonging to the middle class, traders, zemindars, etc., managing agents, shareholders, debenture-holders, private depositors, special institutions like mortgage companies, trust companies, insurance companies, etc., and the State.

The Reserve Bank of India

The preamble to the Act setting up the Bank says: "it was considered expedient to constitute a Reserve Bank for India to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage". The Bank is not intended to undertake the primary

function of the money market. It exercises powers of control and directions by (a) being the sole agency for issuing notes, (b) by keeping Government cash balances and statutory cash reserves of scheduled banks, and (c) by purchasing, selling and rediscounting bills of exchange and promissory notes arising out of bonafide commercial or trade transactions and bearing two or more good signatures, one of which shall be that of a scheduled bank or bills and notes drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and bearing two or more good signatures one of which shall be that of a scheduled bank or a provincial co-operative bank. The first-named class of bills and notes should mature within 90 days of purchase or rediscount and the second-named class within nine months from the date of purchase or rediscount.

The Bank is also permitted to make loans and advances repayable on demand or on the expiry of fixed periods not exceeding 90 days to scheduled banks and provincial co-operative banks against the security of bills and notes and promissory notes of a scheduled bank or a provincial co-operative bank being supported by documents of title to goods which have been transferred, assigned, or pledged to any such bank as security for a cash credit or overdraft granted for bonafide commercial or trade transactions or for the purpose of financing seasonal agricultural operations or the marketing of crops.

So it appears that in order that the Reserve Bank may make its influence beneficially felt in the matter of finance of trade and commerce a balanced structure of the money market is required. The Reserve Bank can help in correction and adjustment of temporary and short-term clogs in the flow of credit.

The State Bank of India

The amending Act of 1934 freed the former Imperial Bank from many restrictions which stood in the way of the bank extending direct and active help to trade and industry. It could then make advances "subject to such directions as may be issued by the Central Board" against debentures of companies with limited liability, and, "if so authorised by special directions of the Central Board" against goods which were hypothecated to the bank as security.

In the course of investigation made by the Indian Central

Banking Inquiry Committee many complaints were heard about indifference shown by the Imperial Bank and the foreign exchange banks towards the development of trade and industry controlled and owned by Indians. They did not make advances against the hypothecation of goods unless a collateral security in the shape of a guarantee by the managing agents or other approved party was given. The pledge of goods was demanded. It was contended that in considering the acceptability of a guarantee the banks showed partiality towards European-controlled concerns.

The State Bank of India is now largely State-owned and State-managed. It is an important source of finance for trade and industry. It has made vigorous moves for improving both industrial and agricultural credit.

The Foreign Exchange Banks

The foreign exchange banks are branches of banking corporations abroad. They finance foreign trade to a considerable extent. Now they obtain deposits here and also do ordinary banking business.

Joint-Stock Banks

These banks supply a substantial portion of credit to trade and industry. As deposits of commercial banks are short-term bank lending is also required to be short-term, if sound banking is to be ensured. As a result, there is an adequate supply of short-term bank credit.

In the light of a considerable increase in bank deposits because of development plans as well as deficit finance, there is an increasing scope for medium-term bank lending. So banks are now providing some amount of money to industries for financing capital outlays but the scope for such medium-term lending is restrained as bank liquidity has to be maintained for servicing the short-term deposits.

Banks are also moving to diversify their activity to a limited extent for employing a portion of their money profitably. For example, they are going in for personal loan schemes. They are also extending their activity slowly in the field of hire-purchase. There appears to be some scope in the sphere of consumer credit, if it is extended cautiously.

Loan Companies and Co-operative Societies

Loan companies and co-operative societies supply adequate credit to trade and industry. Their working suffers as they employ short-term deposits in long-term investments, block money in mortgages or real property, give unsecured loans without examining the sources and methods of repayment, permit loans for long periods and make little provision for building reserves.

Shaukers and Money lenders

Shaukers and money lenders employ money in loans and advances but they do financing business in a haphazard way. They are attracted by high interest rates without considering the credit-worthiness of borrowers.

Managing Agents

The managing agents not only manage companies but they also help finance the companies under their management. They supply money from their own resources or they manage to obtain it from outside sources.

Shares, Debentures and Deposits

A considerable portion of industrial finance needs to be obtained in the form of share capital. Expenditure on fixed block, such as land, machinery and equipment, should be financed by share money. The advantage of share money is that it carries no recurring liability. The shareholders take the risk of investing their money in the hope that they will be rewarded by the payment of dividends if the companies make profits. They may also benefit from an appreciation in the value of their shares. Companies pay dividends as and when they think it proper to do so. There is no obligation on companies to pay dividends unless they voluntarily decide to do so.

In India shares are becoming popular steadily. If the climate for investment is made attractive, greater funds can be attracted for investment in shares.

Industries may obtain money by floating debentures which virtually amount to borrowing. They are not liked by companies as the mortgage charge which attaches to debentures affects their powers to borrow from banks. Debentures are expensive because

of stamps and brokerage paid. Money is obtained in the form of deposits which are a common feature of the cotton mills in Ahmedabad and Bombay. The deposits carry reasonable interest rates. They do not involve any encumbrance on the property of a company. As they can be distributed over different months of a year their withdrawals do not constitute any embarrassment. If money is obtained by deposits higher dividends can be declared on the shares but the employment of short-term money for meeting the needs of business could disturb working.

Insurance Companies

In the U.K., the U.S.A. and Japan insurance companies employ a large portion of their money in industry. In India a major portion of insurance money is invested in Government or semi-Government securities. Considering the profitability of industrial investments it is worth employing bigger funds in industry.

Industrial Finance Corporation

In order to provide industries with medium and long-term credit, the Government of India has established an Industrial Finance Corporation. It provides long and medium-dated loans to industries. Financial aid from the Corporation is available to public limited companies, private limited companies and co-operative societies. Partnerships are excluded from taking any loan from it. The authorised capital of the Corporation amounts to Rs. 10 crores, of which half has been subscribed. The share capital is subscribed by the Government and institutional investors. The Government of India has guaranteed the outside shareholders in respect of both principal and interest. The shares are distributed as follows:—

| | | | |
|---|-----|-----|---------------|
| (i) Central Government | .. | ... | 2,000 Shares. |
| (ii) Reserve Bank | .. | ... | 2,000 " |
| (iii) Scheduled Banks | ... | ... | 2,500 " |
| (iv) Insurance Companies, Investment Trusts and similar Financial Institutions | ... | ... | 2,500 " |
| (v) Co-operative Societies | ... | ... | 1,000 " |

10,000 Shares.

The Corporation is managed by a board of twelve directors of whom three are nominated by the Government of India, two by the Reserve Bank of India, two by scheduled banks, two by co-operative banks and two by other financial institutions, and the Managing Director is appointed by the Central Government. The Corporation has powers to borrow up to an amount equivalent to five times its paid-up capital and reserves; fixed deposits are accepted by the Corporation with a maturity of up to five years. It can borrow in foreign currencies if it wishes. Borrowers from the Corporation are required to limit their dividends until loans are repaid.

Notable functions include guaranteeing, on such terms and conditions as may be agreed upon, loans raised by industrial concerns which are repayable within a period not exceeding 25 years and are floated in the market, underwriting stocks, shares, bonds or debentures, receiving in consideration of its services such commission as may be agreed upon, retaining stocks, shares, bonds or debentures which it may have to take up in fulfilment of its underwriting liabilities and disposing of them within seven years from the date of acquisition, granting loans or advances to, or subscribing to debentures of industrial concerns repayable within a period not exceeding 25 years, and doing all things incidental to or consequential upon the exercise of its powers or the discharge of its duties.

The Government of India has wide powers over the Corporation, and the Board of Directors carries out the policy dictated by the Government. The latter can supersede the Board if it fails to act according to principles laid down by the Government. The Government may buy the shares of the Corporation under certain conditions any time it chooses to do.

The Corporation has made considerable progress. An interest of 7.5 per cent is usually charged by it on loans. It takes time to sanction loans, as loan applications need to be examined carefully. It usually takes time to examine carefully title deeds of fixed assets, against which it may make advances. The Corporation claims that it has helped increase production by establishing new industries and saving a good number of industries from failure.

Its activity is restrained by shortcomings of industries. Loan applications may be very ambitious. Entrepreneurs may embark upon schemes, which are beyond their resources. It is therefore

desirable that businessmen concentrate on industrial projects after careful scrutiny and scientific planning.

Considering that a single institution is not adequate to tackle the problem of industrial finance, an Act has been passed by Parliament to enable the States to set up Finance Corporations. Nearly all the State Governments have established their own Finance Corporations. The State Corporations are meant to supplement the work of the Industrial Finance Corporation by advancing medium and long-term credit to industries. Although large units are not excluded from the scope of the State Corporations, the latter's function is to finance mainly small and medium-sized units. They are handicapped by two main factors.

First, it is not possible for a State Corporation to engage any technical staff, so it has to rely for necessary technical advice on outside agencies. The absence of adequate facilities for technical investigation is a serious handicap for a Corporation. The International Planning Team (of Ford Foundation) on small industry in India indicates that a competent field organisation should be set up to process loan applications from small industries within the framework of the State Directorate of Industries, and this organisation may act as an agent of the State Financial Corporations. The proposal deserves attention of the Government.

Secondly, statistics relating to various industries are not properly maintained. In the absence of such information, it is extremely difficult to make a proper assessment of the scope and prospects for industry. Industrial progress cannot be made by increasing the supply of finance, without ensuring that the installed capacity will be utilised and that there will be markets for goods produced. Experience indicates considerable idle capacity. Complaints about lack of markets are widespread and there is pressure for protection. This makes selection of industries which are to be helped difficult. In the case of small and medium-sized units it is difficult to select industries, which do not face competition. Only a few industries producing luxury articles are relatively well placed in respect of competition.

An industrial concern may borrow against block assets, stock-in-trade, or against both. Granting advances against stock-in-trade is a normal function of commercial banks, and is outside the activities of a financial corporation. The usual function of the latter is to lend against block assets, including land, building,

plant and machinery. The State Corporations also give loans for working capital in deserving cases.

Steps have been taken to prevent the overlapping of the activities of the Industrial Finance Corporation and the State Financial Corporations. Applications for loans of up to Rs. 10 lakhs, or 10 per cent of the paid-up capital of the State Financial Corporations, whichever is less, are dealt with by the State Financial Corporations.

The West Bengal Financial Corporation gives medium and long-term credit to industries in West Bengal, so it supplements the activity of the Industrial Finance Corporation. Under the Act, the maximum amount of loan which may be given by the West Bengal Financial Corporation to a single concern cannot exceed 10% of its paid-up capital. Applications for loans of up to Rs. 10 lakhs are considered by the State Corporation and applications for amounts exceeding Rs. 10 lakhs are considered by the Industrial Finance Corporation. If a public company operates in more than one State and wants a loan of less than Rs. 10 lakhs, the Industrial Finance Corporation, working over the whole country, is in a better position to deal with it. The State Corporations have recently been authorised to give loans of more than Rs. 10 lakhs.

Other Institutions

The National Industrial Development Corporation Ltd. and the Industrial Credit and Investment Corporation of India Ltd. also help promote and develop industries. The former is a Government institution, and the latter is a private enterprise. The International Bank for Reconstruction and Development and other financial institutions in foreign countries also help industrial financing.

National Industrial Development Corporation

The National Industrial Development Corporation Ltd. was established on October 20, 1954. It helps the harmonious development of industries in the public and private sectors. It gives priority to the establishment of capital goods industries. It examines industrial schemes, and help obtain the maximum use of industrial equipment, experience and skill.

The Corporation is to promote, establish and operate schemes for developing industries. It may give financial help to any type of industrial undertaking, owned by Government, a statutory body, a company, a firm, or an individual. It may provide finance in different forms. So it may grant loans and advances to industries. It may subscribe to, underwrite or deal in shares and debentures of companies. It may guarantee loans and advances to industries, as well as issues of shares and debentures of companies. It may invest directly in companies formed to run an industrial undertaking approved by it. It may manage, control or supervise a concern by nominating directors or collaborating with it. It may enter into partnership or any other arrangement to manage a concern. It may promote, establish or assist any concern formed to set up an industrial undertaking.

The Corporation has been registered as a private limited company with a paid-up-capital of Rs. 1 crore, which has been taken up by the Government of India. It may increase its financial resources by issuing shares and debentures. It can also receive grants, loans, advances or deposits from the Central Government, the State Governments, banks, companies or individuals.

The Corporation must have a minimum of 15 directors and a maximum of 25 directors. By including industrialists, scientists and other experts on the Board of Directors, it helps integrate the development of public and private enterprises.

Industrial Credit and Investment Corporation of India

The Industrial Credit and Investment Corporation of India Ltd. was incorporated under the Companies Act on January 5, 1955, for helping industrial enterprises in the private sector. The Corporation helps the creation, expansion and modernisation of enterprises. It encourages and promotes participation of domestic and foreign private capital. It encourages and promotes private ownership of industrial investments. It provides finance in the form of long and medium-term loans, or by means of equity shares. It sponsors and underwrites new issues of shares and securities. It guarantees loans from private investment sources. It makes funds available for re-investment by revolving investments as rapidly as possible. It furnishes managerial, technical and administrative advice, and helps obtain managerial, technical and administrative services for industry.

The authorised capital of the Corporation is Rs. 25 crores, divided into 500,000 ordinary shares of Rs. 100 each, and 20 lakhs unclassified shares of Rs. 100 each. The issued capital at present is Rs. 5 crores, consisting of 5 lakhs of ordinary shares of Rs. 100 each. Every share has one vote.

The Government of India helps it with loans. The International Bank for Reconstruction and Development lends to the Corporation from time to time. The repayment of the principal, interest and other charges on the International Bank loans are guaranteed by the Government of India.

The Corporation can borrow, provided the amount borrowed and guaranteed by it, does not exceed thrice the aggregate of (1) the unimpaired capital, (2) the outstanding advance from the Government of India, and (3) its surplus and reserves. After the expiry of five years from incorporation, it is required to transfer 25 per cent of its profits every year to a reserve fund for meeting contingencies, until the reserve fund is equal to the outstanding Government advance.

Refinance Corporation for Industry

The Refinance Corporation for Industry Private Ltd. was established on 5th June, 1958 with the object that the American counterpart funds earmarked for relending to private enterprises in India, may be channeled through it. The company will increase resources available for the use of medium-sized industrial units in the private sector by providing refinancing facilities to its member banks against medium-term loans granted by them to concerns under these categories.

The Corporation has been registered with an authorised capital of Rs. 25 crores, consisting of 2,500 shares of Rs. 1 lakh each. Shares of the face value of Rs. 12½ crores have been issued, on which 10% has been paid on application and a further 10% on allotment.

The Government of India will make available to the Corporation the amounts, up to Rs. 26 crores, required by it from time to time in the form of interest-bearing loans. So the total funds of the Corporation amount to Rs. 38.5 crores for the time being.

Each of the 15 participating scheduled banks has been allocated a quota from the total funds of Rs. 38.5 crores within which the

bank may offer certain types of loans to the Corporation for re-finance. The quotas vary according to the size of the bank's deposits in India. Loans to be eligible for refinancing by the Corporation must be for periods between three and seven years and the amount of the loan to any one party should not exceed Rs. 50 lakhs. Loans must be given to medium-sized industrial units. The loans given by banks must be for the purpose of increased production in the private sector.

The latest report of the Corporation shows that banks have not made much use of the refinancing facilities as the conditions for obtaining them are considered stringent.

First, the refinancing money is available only for relending to medium-sized industrial units. The latter must also be primarily included in the second five year plan or such other plans as may succeed it.

Secondly, the fact that member banks of the Corporation have been advised that loans granted to industrial units prior to 5th June 1958 will not be eligible for refinancing facilities and also that the Corporation will not refinance a loan unless it is submitted to it before the expiry of 12 months from the date on which the loan was granted by the concerned bank, seems to be quite restrictive. So, if a bank gives a loan and services it from its own sources for over a year as it is likely to do under present conditions, the refinancing facilities from the Corporation will not be available. It is debatable if such a provision will encourage banks to give medium-term loans on a generous scale.

Business Finance

It is necessary that every business house keeps an accurate and up-to-date record of financial transactions so that it may determine any time its financial position. It is obligatory for every limited company to maintain books of accounts, and submit to shareholders periodical statements of its financial position, duly checked and reported upon by the company's authorised auditor. A business house maintains staff for keeping accounts and it may not be possible for the staff to prepare financial statements over a period, so it is made by professional accountants. In big business firms, the staff makes periodical statements. The first step is to prepare a trial balance, which denotes a process for checking the mathematical accuracy of the books. It works on

the principle of double entry as the trial is made by comparing the lists of debit and credit balances in the books. The totals of the two lists must be equal if the books are kept correctly.

As soon as the trial balance is completed, the accountant proceeds to close the books and estimate the correct results during a given period, which is usually a half-year or a year. A profit and loss account is then drawn up, disclosing a list of the totals on the debit and credit sides.

Usually the accounts are sub-divided into two parts, the first portion is called the trading or the manufacturing account and the second the profit and loss account. Specimens are given below.

SONS & CO. (India) LTD. ; CALCUTTA

Trading Account for the year ended 30th June, 1959.

| To | Rs. | nP. | Rs. | nP. |
|--|----------|-----|-----------|-----|
| Stock in Trade as at 1st July, 1958 ... | | | 16,10,361 | 82 |
| Goods Purchased | | | 39,40,384 | 87 |
| Salaries and Wages | 3,63,980 | 70 | | |
| Managing Agents' Fees | 68,872 | 56 | | |
| Audit Fees | 3,500 | 00 | | |
| Directors' Fees | 1,024 | 00 | | |
| Directors' Commission | 14,449 | 30 | | |
| Establishment Charges | 2,94,371 | 64 | | |
| | | | 7,46,198 | 20 |
| Balance Control to Profit and Loss Account | | | 7,47,307 | 68 |
| TOTAL Rs. ... | | | 70,44,252 | 56 |

Trading Account for the year ended 30th June, 1959.

| By | Rs. | nP. | Rs. | nP. |
|--|-----|-----|-----------|-----|
| Sales of Machinery, etc. | | | 50,79,730 | 71 |
| Stock in Trade as at 30th June, 1959 ... | | | 19,64,521 | 85 |
| | | | | |
| TOTAL Rs. ... | | | 70,44,252 | 56 |

SONS & CO. (India) LTD. ; CALCUTTA (Contd.)*Profit & Loss Account for the year ended 30th June, 1959.*

| To | Rs. | nP. | Rs. | nP. |
|---|--------|-----|-----------------|-----------|
| Depreciation on Capital Expenditure written off:— | | | | |
| Buildings | 11,000 | 00 | | |
| Plant and Machinery | 16,588 | 34 | | |
| Furniture and Fittings | 6,135 | 59 | | |
| Motor Vehicles | 5,285 | 31 | | |
| Tools and Patterns | 282 | 92 | | |
| | | | 39,292 | 17 |
| Reserve for Taxation:— | | | | |
| Income and Super Taxes | | | 1,32,000 | 00 |
| Excess Profits Tax | | | 5,07,000 | 00 |
| Balance carried forward | | | 1,48,035 | 55 |
| TOTAL Rs. | | | 8,26,327 | 72 |

Profit & Loss Account for the year ended 30th June, 1959.

| By | Rs. | nP. | Rs. | nP. |
|--|--------|-----|-----------------|-----------|
| Balance from Last Account | | | 2,07,632 | 56 |
| Less: Dividend paid at the rate of 1½% free of Income Tax | 78,750 | 00 | | |
| Transfer to General Reserve Account | 50,000 | 00 | | |
| | | | 1,28,750 | 00 |
| Profit Transferred from Trading Account | | | 78,882 | 56 |
| Profits on Sales of Motor Vehicles | | | 7,47,307 | 67 |
| | | | 137 | 59 |
| TOTAL Rs. | | | 8,26,327 | 72 |

In the trading account, the gross profit denotes the excess of the amount realised by the sale of goods over the cost of manufacturing or buying them. If the total cost of manufacture or purchase is in excess of the amounts realised by the sale of goods, a gross loss is incurred, and this is shown on the credit side of the account and transferred to the debit side of the profit and loss account. A gross profit is transferred to the credit side of the profit and loss account in which after deducting certain trade expenses and adding sundry revenue items, a net profit for the period is shown. It is possible that the total trade expenses exceed the gross profit or a gross loss may be increased by higher expenses. In such instances a net loss is incurred and exhibited on the credit side of the profit and loss account. Before showing the appropriation of profits to different heads, they are transferred to a third account, called an appropriation account.

The appropriation account is opened with the balance of the previous account brought in and credited with the net profit of the current period. The account is debited with various appropriations of profits which are made during the period under review. It is usually found that a final dividend is shown on account of the previous period, while an interim dividend is shown on account of the current period. The procedure is followed as the majority of companies authorise, by the Articles of Association, the directors to pay interim dividends. A final dividend is recommended by the directors but it is sanctioned and passed by the shareholders in a general meeting. In the meeting a directors' report is placed before the shareholders, recommending as to how it is proposed to deal with the available balance.

The final stage in the preparation of accounts is the drawing up of a balance sheet, showing the financial position of a firm at the close of a period under review. Items of debit, such as capital, debentures and amounts owing to credits, bills payable, loans, revenues and the balance on profit and loss account are shown on the left hand side of the balance sheet under the usual heading of "capital and liabilities". On the right hand side assets are shown and they include all properties of business and all debits owing to it, including the debit balance, if any, on the profit and loss account.

The following is an example of a balance sheet.

ZEMINDARY

Balance Sheet as at

| LIABILITIES. | Rs. | nP. | Rs. | nP. |
|---|----------------|-----|----------------|-----|
| CAPITAL— | | | | |
| AUTHORISED— | | | | |
| 1,00,000 Ordinary Shares of Rs. 100 each | 1,00,00,000-00 | | | |
| 25,000 6% Cumulative Preference Shares of Rs. 100 each | 25,00,000-00 | | | |
| | 1,25,00,000-00 | | | |
| ISSUED AND SUBSCRIBED— | | | | |
| 94,000 Ordinary Shares of Rs. 100 each | 94,00,000-00 | | | |
| 8,762 6% Cumulative Preference Shares of Rs. 100 each | 8,76,200-00 | | | |
| Redeemable at option of Company in giving six months' notice | | | 1,02,76,200-00 | |
| (Particulars of Capital issued for Cash and pursuant to a contract without payment being received in Cash—as per Schedule attached) | | | | |
| PREMIUM ON SHARES | | | 14,73,600-00 | |
| RESERVE | | | 11,50,000-00 | |
| PREMIUM LEASE RESERVE | | | 7,73,313-00 | |
| RENT SUSPENSE (Provision for Bad and Doubtful Rents) | | | 14,97,472-00 | |
| LIABILITIES— | | | | |
| For Expenses | 4,49,089-00 | | | |
| „ Other Finance | 5,38,410-00 | | 9,87,499-00 | |
| | | | 41,334-00 | |
| UNCLAIMED DIVIDENDS | | | 25,000-00 | |
| PROVISION FOR TAXATION | | | 4,25,075-00 | |
| EMPLOYEES SECURITY DEPOSIT | | | 51,766-00 | |
| PROFIT AND LOSS ACCOUNT | | | 11,02,441-00 | |
| TOTAL Rs. | | | 1,78,03,700-00 | |

AUDITORS' REPORT TO THE SHAREHOLDERS

We beg to report that we have audited the foregoing Balance Sheet of ZEMINDARY COMPANY, LTD. as at 13th April, 1959, and Revenue and Profit and Loss Accounts for the year ended 13th April, 1959, in which have been incorporated the certified returns from the company. We have obtained all the information and explanations we have required and in our opinion such balance sheet and revenue and profit and loss accounts are drawn up in conformity with the law, and the balance sheet exhibits a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us and as shown by the books of the

COMPANY, LIMITED.*13th April, 1959.*

| ASSETS. | Rs. | nP. | Rs. | nP. |
|---|--------------|-----|----------------|-----|
| Land, Zemindary and other rights, Buildings and Machinery etc.— (as per Schedule attached) ... | ... | | 98,08,904-00 | |
| STORES ... | ... | | 66,178-00 | |
| BOOK DEBTS—(Unsecured) ... | ... | | | |
| Outstanding Rents considered good ... | 36,44,740-00 | | | |
| Miscellaneous considered good ... | 1,301-00 | | | |
| Chaitali Receipts from 14th to 30th April, 1958 ... | 5,09,951-00 | | | |
| DEPOSITS AND ADVANCES including Produce Stocks ... | ... | | 41,55,993-00 | |
| LOANS—(Secured) ... | ... | | 2,01,125-00 | |
| Including interest accrued thereon ... | ... | | 3,11,967-00 | |
| INVESTMENTS— | | | | |
| In Government or Trust Securities at below cost ... | 23,23,475-00 | | | |
| In Debentures at below cost ... | | | 23,68,475-00 | |
| (The market value of the Investments on 13-4-58 was approximately Rs. 24,15,235-94) | | | | |
| INTEREST ACCRUED ON INVESTMENTS ... | ... | | 6,583-00 | |
| MERCANTILE BANK OF INDIA, LTD. EMPLOYEES SECURITY DEPOSIT ... | ... | | 51,766-00 | |
| CASH AND OTHER BALANCES— | | | | |
| With State Bank of India on Current Account ... | 6,50,100-00 | | | |
| „ Mofussil Managers ... | 52,567-00 | | | |
| „ Managing Agents— | | | | |
| on Current Account ... | 1,07,227-00 | | | |
| on Dividend Account ... | 22,815-00 | | | |
| | | | 8,32,709-00 | |
| TOTAL Rs. ... | ... | | 1,78,03,700-00 | |

company. In our opinion books of account have been kept by the company as required by law.

LEWES,
Registered Accountants,
Chartered Accountants,

Auditors.

For ZEMINDARY CO., LTD.
By Their Constituent Attorney,

L. SHAH,
A. DOSS, Directors.
A. W. ADAM

It is required by law that the auditors' report should be given in the above form. Below are given specimens of revenue and profit and loss accounts.

JUTE MILLS LIMITED

Dr. *Revenue Account for the Half-Year ended 30th September, 1959.* Cr.

| | Rs. nP. | | Rs. nP. |
|--|--------------|--------------------------|--------------|
| To OPENING STOCK | ... | By SALES | ... |
| " Manufacturing Expenses | ... | " Sundry Receipts | ... |
| " Loss on Food Stuffs (provided for employees) | ... | " Interest | ... |
| " Salaries and Wages | ... | " Interest on Investment | ... |
| " Establishment Charges | ... | " Closing Stock | ... |
| " A. R. P. Expenditure | ... | | |
| " Gunny Brokerage | ... | | |
| " Directors' Fees | ... | | |
| " Managing Agents' Commission | ... | | |
| " Income-Tax on Interest on Investment | ... | | |
| " Balance to Profit & Loss Account | ... | | |
| TOTAL Rs. | 71,45,846-00 | TOTAL Rs. | 71,45,846-00 |

Profit & Loss Appropriation Account for the year ended 31st October, 1959

| | | | |
|---|-------------|---|-------------|
| To Amount transferred to Employees' Bonus and Welfare Fund | | By Balance as per last Balance Sheet | |
| " Dividend for 1957/58 On Preference Shares @ 7% On Ordinary Shares @ 7½% | 12,000-00 | | 2,74,082-00 |
| " Managing Agents' Commission for the year ended 31st Oct., 1958 | 48,328-00 | | |
| " Balance carried over | 29,203-00 | | |
| | 1,84,551-00 | | 2,74,082-00 |
| To Income-tax and Excess Profits Tax | | | |
| " Amount transferred to Charity A/c. | 1,85,142-00 | | |
| " Balance (subject to taxation and Managing Agents' Commission) carried to Balance Sheet | 496-00 | By Balance brought over from 1956/57 | 1,84,551-00 |
| | 2,64,129-00 | " Net Profit for 1957/58 as per Profit & Loss A/c. | 2,65,216-00 |
| | 4,49,767-00 | Rs. | 4,49,767-00 |

Functions of Auditors

The Companies Act provides that the accounts of a limited company must be audited every year, so a professionally qualified accountant must be elected by the shareholders of a company every year as their auditor. The duty of an auditor is to check up the accuracy of accounts of a company and report to the shareholders. The auditor detects frauds and mistakes. The auditor's report must be attached to the balance sheet in the prescribed form. If the auditor detects any irregularity which the directors are unable to rectify, it is his duty to mention it in his report.

Dividend Policy

If a company makes profits, it is difficult to appropriate them properly. The shareholders prefer high dividends but the accumulation of reserves is desirable. High dividends may encourage speculation in shares, inflating the share values. The dividend problem becomes complicated if there are different types of shareholders. The preference shareholders favour a conservative dividend policy, which strengthens the assets of a company. The ordinary shareholders like generous dividends as they know that the accumulated reserves are first paid to the preference shareholders if a company goes into liquidation. In the event of big profits, the directors prefer to plough back money in the business instead of increasing dividends so that accumulated reserves may be capitalised by issuing free bonus shares. But the issue of bonus shares should be made with discretion. Bonus shares increase the capital and if this is not required it may lead to "watering" of capital. Sometimes the directors create secret reserves to avoid paying high dividends. Reserves in a balance sheet refer to the past profits, but a company may build up secret reserves by understating profits and assets or overstating the difficulties. Secret reserves may be utilised to write off losses quietly. This system could be abused. It is a moot point whether the shareholders who are the proprietors of a company should be kept in the dark. Secret reserves may not disclose real losses and may delay reorganisation and rationalisation. By not disclosing the correct position, these may induce the shareholders to dispose of their stocks at a price below their intrinsic value. Secret

reserves may encourage fraud by tempting the directors to inflate the profit and loss account and attract money into business. If a balance sheet is meant to show a correct financial position, secret reserves are difficult to defend.

Necessity of Statistics in Business

Statistics are defined as "numerical statement of facts in any department of enquiry, placed in relation to one another". They consist of figures over a certain period. It is, therefore, necessary that a standard be adopted as a basis of comparison. In a business standard denotes the corresponding data of the previous year, half-year, quarter, month or week. The collection and analysis of figures help a businessman grasp facts accurately and find out solutions. Statistics help forecast the trends correctly.

Questions

1. At present many Indian companies have financed their fixed assets by borrowing from banks than by increasing their share capital. Do you consider this trend desirable? Give your reasons.
(Delhi Dip. Ex. 1962).
2. What are the different methods of "placing" shares of joint-stock companies in India? Discuss the relative advantages and disadvantages of these methods. State your opinion on the desirability of having industrial banks for the purpose.
(M.A. Com., Cal., 1956).
3. What are the different institutions available for the financing of Indian industries?
4. Industries require both short-term and long-term loans. Are the banks as existing in this country adequate to meet the needs?
5. Examine the nature of financial facilities available for Indian Industries. What modifications would you propose in the existing financial system to suit their requirements?
(M.A. Com., Cal., 1960).
6. Describe the principal methods of raising capital for industries in India. Are these methods adequate and sound?
(M.A. Com., Cal., 1942).
7. Can you state in how many ways the financial resources required for (a) establishing an industry and (b) running the same can be secured? What are the usual sources for such financial supply available in Bengal?
(B. Com., Cal., 1945).
8. Why do joint-stock companies revise their capital by different kinds of shares?
(B. Com., Bom., 1944).

9. What is the role played by Indian banks in financing business concerns? What improvements would you suggest?
(B. Com., Rajputana, 1949).
 10. Financing of small and medium sized industries is a problem in India. Do you advocate the establishment of State Financial Corporations for meeting the financial needs of such types of industries?
(M.A., Cal., 1951).
 11. Give the chief features of the Industrial Finance Corporation Act, 1948. Would this Corporation effectively help in solving the problem of industrial finance in India?
(M.A., Allahabad, 1948).
 12. Examine the nature of financial facilities available to Indian industries. Give your suggestions for improvement.
(B. Com., Allahabad, 1950).
 13. Describe the functions of a State Financial Corporation. How does it get its own funds?
(B. Com., Cal., 1958).
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CHAPTER XXXVIII

BUSINESS ADMINISTRATION

Management and Administration

There has been a steady progress in ideas concerning business. Because of many complex problems attention is being increasingly given to placing business management and administration on a scientific basis.

Business is commonly considered as an art but there have grown a number of well defined rules and principles concerning business management, so it has now become a science. There is a well defined theory about business management and administration. It is possible that many people carry on business from personal experience without caring to study the theoretical aspect, but a proper knowledge about theories can prove helpful.

A business if it is to run well, needs to be planned on a scientific basis. At first it is necessary to outline the organisational set up of a business. After having laid down the organisation the important fact is to administer and manage a business. Those who are in charge of management and administration are mostly concerned with laying down policies and devising means of implementing them in practice. Administration is commonly used in respect of Government, but the principles underlying Government administration are applicable to business administration. An efficient business manager needs to know how to administer a business properly.

Co-ordination

In a business there are various factors, such as land, labour and capital, which must be co-ordinated to produce economic results. So it is necessary that active steps are taken to help co-operation among all the factors of production. Good results can be obtained by group activity. Unless team-work is ensured among various participating factors no useful result is possible.

After outlining a policy a business manager is required to concentrate attention on devising methods for controlling acti-

vities of the entire organisation. Control has to be imposed at all levels to ensure success.

Ideas in modern society have changed a great deal. Previously a man in business used to work for his own gain. This individualistic outlook has been diluted by social considerations. Private motive, although important, is no longer the sole force in business. Activity is to be judged by its effect on society. Business activity is to be conducted so as to ensure a better degree of productivity, especially in terms of social and human values.

Socio-economic Aspect

As far as an individual is concerned he is required to take the risk of business. He has to do his planning and forecasting but his activity must aim at producing maximum social good.

The socio-economic aspect of business is evident from the mixed system of enterprise India has adopted. Side by side with private enterprise public undertakings are being set up. There is need for public enterprise in some spheres of economic life to ensure maximum social good. What is needed is to maintain a balance between the two sectors. As a socialist pattern of society has been accepted as the goal in this country, private enterprise is being necessarily regulated and controlled.

In India business enterprises are of many types—small, medium and large. This pattern is required by inherent economic conditions. In fact these types prevail throughout the world, as there is necessity for each.

State Enterprise

During the past five years a large number of public enterprises have been set up in India. Some of them are big, some medium and others small. The Hindusthan Steel Ltd. has an authorised capital of Rs. 300 crores and there are also enterprises with a capital of Rs. 10 lakhs. Notable Government undertakings include Hindusthan Aircraft, Hindusthan Machine Tools, Heavy Electricals and Bharat Electronics. So they range from producing aircraft, steel, electronics, fertilisers, machine tools, mining, ship-building, shipping, electricals, equipment, air transport and hotel business.

Naturally there have grown a number of management pro-

blems. The company organisation appears to have been accepted as a form of top management. Many State concerns are governed by the Companies Act and others by separate statutes. Many Corporations have been set up under special Acts of Parliament in the form of statutory corporations or commissions. For example, the Oil and Natural Gas Commission was set up in October 1959.

In order to formulate group management policies, especially for Government enterprises, conscious effort is being made to study management as a science. Institutions have been built for administrative and managing experience and for formulating theories of management. The Indian Institute of Public Administration is an illustration. The Administrative Staff College in Hyderabad is another. Here persons trained from the second and third lines of top management in private industry, public enterprises and public administration spend many months discussing management problems. The Government has established staff colleges for its own officers. In addition to these institutions there are a number of management and administrative seminars and conferences.

Indian Parliament is giving close attention to the management of public undertakings. The Estimates Committee and the Public Accounts Committee of Parliament are important bodies for examining the working of these enterprises. The reports of these two committees are published from time to time. These committees help primary control without interference in the day-to-day activities. They make recommendations covering the management of State enterprises, the chairmanship and directorships on boards of management, recruitment, appointments, promotions, incentives, training and research relationships between the Minister, the Ministry and the management of an undertaking, industrial relations, worker's participation and welfare, financial methods and controls, taxation, pricing policies, and accountability, including accountability finally to Parliament.

Experience indicates that sound principles of public administration are applicable to commercial management as is illustrated in Government undertakings. Principles which are followed include canons of accounting for public resources and for the attainment of objectives and targets, and also the sound principles of honest dealing, efficient working and productivity. In running of public industrial enterprises it is being increasingly found that

it is proper to apply the principles of good administration of maximum delegation, of encouragement of the play of initiative, speed and flexibility. Sound public administration and sound commercial management are found to yield the same basic principles.

Attention has been given to encouraging labour productivity. A National Council of Productivity was set up a couple of years ago. Its chief business is to spread the principles of productivity for making managements conscious of the fact that they are responsible for rendering investments and resources placed at their disposal fully productive.

Government Institutions

There are many Government institutions to encourage industries. The National Development Council is concerned with formulating broad policies in respect of industrial development. Many National Laboratories have been set up to improve technical efficiency and invent new processes by scientific investigations. There are several institutes which provide technical knowledge and training. The Indian Standards Institute is devoted to ensuring quality of products. There are many institutions for giving assistance to small-scale industries. Marketing Boards and Warehousing Corporations have been set up to promote sales, especially of agricultural goods. The Export Promotion Council is meant to encourage and develop exports of Indian commodities.

Importance of Business Administration

A study of business management and administration has become important in India because of rapid development of business in recent years as well as due to the increasing participation of State in industrial and commercial activities.

Although principles underlying business management are the same for private and Government business, there is greater need for attention as far as the State sector is concerned. Private enterprise has the advantage of experience and technical personnel. There is nevertheless need for orientation so far as the private sector is concerned. As India has adopted a socialist pattern of society for her objective, the motive of private enter-

prise must be adapted to profit-making, combined with social purposes.

There will be increasing investment in public enterprises in coming years. So it is necessary that a competent cadre of business personnel is trained to run State units. Although there are many points of similarity between civil administration and business administration, it should be borne in mind that the latter has certain unique aspects.

If business, whether private or official, is to be conducted efficiently, business managers must have special qualities which are not necessarily required for running civil administration. A business must be run with a view to making profits, so it must be based on businesslike methods. A business manager must possess flexibility so that decisions can be made correctly and swiftly. In business red tape can be disastrous.

It is therefore necessary to train suitable business managers who can be entrusted with the responsibility of running State undertakings in public interest.

Questions

1. Distinguish between Business Management and Administration.
 2. Discuss the socio-economic aspect of business.
 3. How State enterprises are to be managed?
 4. Describe the importance of a study of Business Administration in India.
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APPENDIX I

COMMERCIAL TERMS

Alloys

They denote bodies which result from the union of two or more metals, the union being brought about under high temperature.

Anthracite

It means the very best type of coal, which is almost smokeless. It is commonly used for steam fuel.

Arbitrator

This means a person who is called upon to decide a dispute by agreement or arbitration.

Average Bond

It means a document signed by all contributors to a general average adjustment. It entitles them to take delivery of their goods after undertaking to pay their share of general average contribution as soon as the amount is ascertained.

Abandonment

It means that the insured in marine insurance gives up all rights in the wreckage in exchange of a compensation.

Ad Referendum

When a contract is made "Ad Referendum", it means that the contract is complete except in minor details.

Adjournment

It means postponing a meeting to some later date.

Affidavit

It means a written statement before a person who is authorised to administer oaths.

After Date

It is used on a bill of exchange, indicating that the maturity of a bill will be calculated at a fixed period after the date on a bill.

After Sight

It means that the maturity of a bill of exchange is to be calculated at a fixed period after its presentation to a drawee.

Agenda

It denotes the programme of business to be performed in a meeting.

Antedate

This signifies to date a document prior to the day on which it is actually drawn up.

Appraiser

Refers to a person who is authorised to make a valuation of goods.

Adjudication Order

It refers to an order by which any person is adjudged an insolvent, and his property is vested in a trustee for the benefit of his creditors.

Allonge

A slip attached to a bill of exchange to provide place for further endorsements.

Agio

Agio is the difference between the real and nominal value of a currency, *e.g.*, if a paper currency is depreciated then agio refers to the premium at which gold or silver rupee (in India) stands in relation to paper money.

Accommodation Bill

Denotes a bill of exchange, accepted by an acceptor to accommodate one of the parties thereof.

Arbitrage

It denotes an operation of buying a security in one market and selling it at the same time in another, and, therefore, making profits out of the price differences.

Amortisation

It refers to a reduction of stock by setting aside profits or by building up a sinking fund.

Assignment

It refers to transfer of title or right in a property.

Average

When a part of the cargo is thrown overboard to save a vessel the loss is general and borne by all interested in the safety of a vessel. Such a loss is termed as "average".

Ad Valorem

When Customs duties are chargeable according to value of goods.

Backwardation

Money paid by a "bear" operator on the stock exchange for postponing settlement.

Bonded Warehouse

A storehouse approved by the Customs authorities for stocking dutiable goods, and no duty is payable until they are actually removed.

Bottomry Bond

It is the mortgage bond executed by the captain of a vessel pledging vessels, freight and cargo for raising loan to carry out necessary repairs of a vessel in the course of a voyage.

Bourse

Refers to a Continental Money Market or Stock Exchange.

Barratry

A wrongful act done by the captain or crew of a vessel to affect interests of the owner of a vessel.

Bond

It means a sealed promise of any kind.

Brick Tea

It refers to tea which is compressed into blocks or slabs.

Bullion

It means gold or silver in bars or in mass as distinct from coined metals.

Back A Bill

To "back" a Bill means that somebody lends his name to it by endorsing it.

Back Freight

It denotes repayment of freight from shipowner for non-delivery of goods owing to his fault.

Bailment

It means delivery of goods from one person to another on condition that they will be returned or dealt with according to advice under certain conditions.

Bank Note

It means a promissory note issued by a bank payable to bearer on demand.

Bank Return

It refers to the weekly statement issued by the Reserve Bank showing assets and liabilities of both Issue and Banking Departments.

Cheap Money

It refers to a period when money conditions are easy and loans are available at cheap rates of interest.

Cheque Rate

It refers to the price at which a cheque or sight draft on a foreign country may be bought.

Call

It refers to a notice issued by a company requesting shareholders to pay money which remains unpaid on their shares.

Call Money

It denotes money lent by banks and can be demanded for repayment any time without notice.

Called Bonds

They mean Bonds called in for redemption, and after this no more interest accrues on them.

Capital Profits

They denote profits which are capitalised by the issue of bonus shares.

Cesser Clause

It is a clause sometimes found in a Charter Party meaning that the Charterer's liability for freight ceases after the goods are taken on board.

Constructive Delivery

It means some action which reveals present intention to deliver.

Copyright

This means that the author or composer reserves all right to print and publish works, and no one is allowed to do so without his permission.

Currency of a Bill

It refers to the period between the issue and maturity of all bills.

Charges Forward

This means that the purchaser is to pay charges for carriage on delivery of goods.

Charging Order

It refers to an order of the Court charging shares in a company with the payment decreed by the Court in a judgment.

Charter

It denotes rights granted by the Crown.

Chose in Action

It refers to that which may be recovered by action in law.

Circular Cheque

It means special letters of credit issued by banks to customers who are going to travel.

Circular Note

It also means letters of credit issued by banks to travellers in round figures.

Clean Credit

It denotes a letter of credit which promises acceptance of a bill of exchange without requiring documents.

Compte Rendu

It means account rendered.

Consols

Refers to that part of National Debts of Great Britain, which is secured on the Consolidated Fund of the United Kingdom.

Contraband

Goods, whose export or import is either prohibited or allowed only on payment of a duty.

Cum Dividend

Used in case of a share, which means that the buyer of the share is entitled to the dividend, declared on it at the time of purchase.

Credit Note

It is sent by a seller of goods to the buyer to correct an overcharge in the original invoice or when goods are returned to the seller.

Debit Note

It is converse of a credit note and is sent to the buyer by a seller, where an invoice is sent out and it is later found out that the invoice is wrongly cast, or goods sent have been under-invoiced. The matter is corrected by sending the buyer a debit note.

Dead Freight

Where the charter of a vessel fails to utilise the full load chartered, the deficiency is referred to as dead freight.

De Facto

It means as a matter of fact.

De Jure

This denotes as a matter of law.

Dead Weight

This refers to bottom cargo which is placed on board a vessel for ensuring stability. Freight on such cargo is determined by weight.

Dear Money

It means that the rate of interest for money is high.

Dies Non

It means a non-business day.

Documentary Credit

It denotes a letter of credit which requires documents to be attached to a bill for which it is meant to be used.

Deficiency Bills

They are created when Government's balance with the Bank of England is insufficient to meet the quarterly payments, and they represent loans to Government by the Bank, generally for 3 months.

Domicile

It means the permanent home or address of an individual.

Dormant Partner

It means the same as a sleeping partner who takes no active part in a business.

Effects

They refer to money, goods, and valuable possession of an individual.

Effects Not Cleared

A bank usually writes this in connection with a cheque which is dishonoured, saying that the remittance against which the cheque is drawn has not yet reached the bank.

Escrow

It means a deed delivered by the maker on certain conditions.

Ex

It means "Out of".

Embargo

Refers to a Government Order under which a ship or cargo is detained in or excluded from a port.

Enfaced Paper

Indian Government promissory notes bearing a notification that the interest may be collected.

Equitable Mortgage

Mere deposit of title-deeds with or without a note of the transaction, as security for a temporary loan.

First Class Paper

Treasury Bills and Bills, bearing names of banks or institutions of unimpeachable faith.

Funded Debt

It means the permanent loan of a Government. Though no fixed date of redemption is given, it may be redeemed when the Government wants to do so.

Face Value

It means the nominal value, *i.e.*, the value as it appears on the face.

Floater

They refer to first-class bills and securities against which call money is advanced.

Floating Capital

It means capital invested in realisable securities, *e.g.*, stock exchange securities.

Floating Charge

It means a kind of mortgage, charging properties which can be used in the ordinary course of business freely.

Floating Debt

It means a temporary loan to be repaid quickly.

Floatation

It means the formation of a company.

Folio

It denotes a page or sheet, carrying two sides of an account in book-keeping.

For Money

It refers to transactions particularly on stock exchanges, which are meant to be closed immediately.

Firm Offer

An offer made finally after some negotiations and is expected to be unconditionally accepted.

Fixed Charges

Rent, interest, salary, etc., payable by a business, whether it is doing any actual business or not.

Free Alongside Ship

Goods to be delivered alongside a ship, named by a buyer, who will bear the cost of loading them on a ship.

Freight Note

A statement given by a ship-owner to a shipper, stating the freight due on the goods shipped.

Freight Release

An endorsement by the master of a vessel on a bill of lading, denoting that freight on goods is paid.

Garbling

It means the act of separating damaged goods from those of good ones.

Garnishee Order

An order of a court, advising a person holding goods of judgment debtors to retain them for the benefit of judgment creditors.

General Lien

It denotes the right of a bank to retain the property of a debtor until the repayment of a loan.

Gilt-edged Securities

First class securities which are very safe and assured, *e.g.*, Government securities.

Glut

It means the over-supply of a commodity.

Godown

This denotes a warehouse.

Gold Bonds

This is used in reference to American Railway Bonds; they mean bonds payable in gold coin.

Guinea-Pig Director

It means a Director who is so appointed because of his name; he is of no use otherwise.

Hall-Mark

It refers to a mark indicating the purity of the goods, and the date of marking.

Hammered

When any member of a stock exchange fails to honour his obligations, he is said to be "hammered".

Hypothecation

Pledging or mortgaging a property.

Imprest System

It is a method of keeping petty cash, by which the petty cashier is advanced a round sum, and at intervals renders an account to a chief cashier for any sum disbursed from his petty cash, and the original round sum is again restored by additional payments by a chief cashier.

In Bond

Refers to goods on which no duty is paid, and which are stored in a bonded warehouse.

Invoice

An invoice is a written statement sent by a seller to a buyer of goods, stating the quantity, quality, price and nature of goods.

Sometimes, a merchant sends goods to an agent, who is authorised to sell them on behalf of a merchant and then to send an account of sale to a merchant. In such cases, a merchant sends a specialised form of invoice known as a *Pro Forma Invoice* to an agent stating the quantity, quality, description, etc., of goods, while price particulars are only mere indications about prices at which an agent is expected to sell. The actual prices at which an agent sells may be lower or higher than pro forma invoice prices.

Issue at Par

It denotes the original value at which shares are issued.

Inventory

This means a catalogue of articles.

Impost

It means a tax.

In Transitu

This denotes in course of transit.

Indenture

It means a deed executed by two or more parties.

Inflation

It denotes an expansion of currency beyond needs, and without sufficient backing of usual securities.

Ingot

It means the bar of a precious metal.

Injunction

This means an Order of a Court, forbidding a particular act.

Interest Policy

It refers to a marine insurance policy which mentions the insurable interest.

Interim Dividend

It means a dividend declared by a company as an instalment out of annual profits, before the final accounts are framed.

Jettison

This refers to commodities thrown overboard in peril.

Journal

It means the main subsidiary book used in book-keeping.

Judgment Debtor

This means a person who is under Court's order to repay a debt.

Jerquer

A Customs Official who examines all imports to find out if goods are smuggled in or not.

Kite-Flying

Dealing in accommodation bills to raise money, such bills being known as "Kites".

Lien

The right of a creditor of holding another man's property till the latter fulfils his obligations to the former.

Legan

It refers to commodities which are jettisoned but are marked with a buoy to expedite recovery.

Ledger

It means a book in book-keeping wherein are recorded debits and credits of all accounts.

Letter of Marque

This refers to Government order, empowering merchants to attack enemies during a period of war.

Letter of Renunciation

This refers to a letter by which a person entitled to take up new shares may transfer his right to another person.

Letters Patent

This denotes a document issued by the Government conferring on the addressee a patent or other privilege.

Lighterage

This refers to the charge for the carriage of goods from wharf to ship.

Long

When a man buys more than what he sells, Americans say that he has gone "long".

Making-up Price

The price fixed by the stock exchange authorities for the carrying over of bargains.

Manifest

A declaration made before Customs Officials regarding the cargo of a vessel.

Moratorium

An extension of the time allowed during abnormal conditions by a Government for the payment of debts, especially in the case of banks.

Marginal Letters

These mean letters of credit with bank bills attached to the margin of letters. Foreign agents sign them at the time of taking advances.

Mungo

It means the waste product of a woollen mill.

Margin

It refers to the excess value of a security over the advance made by a bank.

Maritime Lien

This denotes the right of using a commodity to satisfy a debt, arising out of a maritime venture.

Marked Cheque

This refers to a cheque which has been marked by a drawee bank as good for payment.

Mint

This refers to the place where coins of the currency system are made.

Misfeasance

It means wrong-doing.

Naturalisation

It means the granting of all rights and privileges of a national to an alien.

Notary Public

This refers to an official authorised to sign deeds.

Novation

This means introducing new parties to a contract already existing among some.

Nursing an Account

This means that a bank gives special accommodation to a customer to retain his account.

Omnium

This refers to the aggregate value of different securities forming part of one loan.

Open Account

This means an account which has an outstanding balance.

Pedlar

It is defined by the Pedlars Act, 1871 as "any banker, pedlar, petty chapman, thinker, caster of metals, mender of chairs, or

other persons who, without any horse or other beast bearing or drawing burden, travel and trade on foot and go from town to town or to other men's houses, carrying to sell or exposing for sale any goods, wares or merchandise or selling or offering for sale their skill in handicraft."

Power of Attorney

Refers to a document which authorises a person to act for another in matters mentioned in a document.

Par

It refers to a state of equality.

Parquet

Refers to the group of official brokers on the Paris Bourse.

Pawnbroker

A person authorised to lend cash on the security of goods pledged with him.

Per Diem

Per day.

Per Procuracionem

Under the authority of.

Petite Bourse

This refers to the market held in the Paris Bourse during evening.

Petty Cash

Money meant for small payments.

Pig on Pork

This means that bills are drawn by one branch of a firm on another or Head Office.

Pilferage

Theft of commodities in transit.

Plural Voting Shares

Shares carrying more than one vote are so called.

Post Obit Bond

This means a document which binds one person to repay loans with interest on the death of another.

Poste Restante

An arrangement with a Post Office which keeps to itself all letters until the addressee calls for them.

Poundage

A charge on postal order per £1.

Prime Entry

A provisional entry at the Customs House before goods are landed.

Probate

An official copy of a will of a deceased person certified by a High Court.

Proxy

The authority given by a person to another who can act on behalf of the former in certain matters per authority letter.

Pari Passu

In equal proportions.

Per Contra

As on the other side.

Pro Rata

In Proportion.

Pyx

A box containing coins made at a Mint.

Quarantine

Refers to a period during which no intercourse is allowed between shore and a ship which is suspected of infection.

Quantum Meruit

As much as he deserves.

Quarter Days

The last days of each of the quarters in a year when interest or rent payment becomes due.

Quid Pro Quo

Something in exchange or return.

Rig

Refers to secret operations of a bull operator to force prices of securities up.

Rack Rent

The highest rent which a land can bear.

Racking

It means the drawing off or combining wines or spirits from casks at the Customs House.

Rags

Remnants of discarded woollen or cotton goods.

Reciprocity

It means that two countries mutually agree to give concessions to each other in matters of customs duties.

Rente

It means National Debt in the Continent.

Reversion

Right to property acquired on death of a person or on the expiry of a lease.

Rummaging

This refers to the search of a vessel undertaken by Customs Officials to discover any concealed goods which are dutiable or prohibited.

Rebate

An allowance made off the price of a thing.

Receiver

This means a person appointed by another or by a Court to take charge of a property.

Re-draft

This denotes a bill drawn on a party who is liable on a dishonoured bill.

Rest

Undivided profits of the Bank of England.

Retire A Bill

To pay a bill on maturity.

Rider

It means a subsequent addition.

Ring

It refers to a group of persons purporting to raise prices by controlling supply.

Royalty

It refers to payment made to an owner of mines for using his properties or to another for trading in his book.

Seigniorage

Refers to profits made by a Government on the manufacture of token coins or money.

Ship's Protest

It is a declaration made by the master of a vessel, on oath, stating the circumstances under which any damage to ship or cargo has happened.

Slinging

It is a shipping term used in the United Kingdom to denote charges for putting chains round the goods as they lie in craft alongside a vessel. This makes it easy to load them on board a ship.

Sans Frais

It means "without expense".

Scrip

It means a share certificate, acknowledging payment of application and allotment money.

Second Via

It denotes a document sent by next mail in case the first should be missing.

Sequestration

Means bankruptcy.

Set-off

It means counter-claim.

Shipping Advice

It refers to an advice sent intimating that certain goods have been sent for shipment

Shipping Bill

It refers to a Customs document, entitling a person to a drawback.

Shipping Note

A request to the Dock Superintendent to receive and ship goods.

Ship's Husband

It refers to a Manager of a British ship.

Short

American term signifying a person who sells in anticipation of a fall in price.

Short Interest

Refers to the repayment of premium which has been paid in over-issuing goods.

Short Shipment

Goods left behind out of a consignment.

Short Cut

This means goods which could not be taken on board a vessel.

Sola Bill

This refers to a bill of exchange which is drawn in one part only as distinct from bills drawn in sets.

Stevedore

One who helps in the loading and unloading of a vessel.

Stop

This means a notice to a bank requesting not to pay on a note or anything else on presentation.

Stoppage on Transitu

This means the right of a seller to stop the goods in transit from reaching a buyer who has not paid for the goods, and who has been reported to be insolvent.

Stowage

Packing of cargo on board a ship.

Stranding

Means that a ship has touched the bottom and is held up for some time.

Subpoena

Order by a Court, asking a person to attend under a penalty in case he fails to do so.

Supra Protest

Means under protest.

Sine Die

Indefinitely or without a day.

Slump

Refers to a heavy drop in prices.

Stale Cheque

Any cheque in circulation for more than six months or so.

Tale Quale

It is used in contracts of sale of goods to arrive. It means that goods are to sample when shipped, but a buyer undertakes all other risks of damage to goods during transit.

Talon

Attached to a bearer bond, and is used for applying for further interest coupons when the previous issues are all used.

Tied Shop

It refers to a type of shop which is tied to a particular interest in the sense that though a shopkeeper is the owner of a shop, he is bound to stock and sell certain specified goods of a particular interest, and enhance their sales in preference to other goods. This is usually found when a shop takes up the sole selling agency of a particular commodity.

Truck Acts

Acts making illegal payment of wages in kind.

Trustee

One who holds a property for the benefit of another.

Turnover

Total business done by a firm over a given period.

Take up

To pay a bill at due date.

Towage

Charge by the owner of a tow-boat for handling a vessel.

Trade Mark

A registered name, mark or brand to distinguish anything from others.

Ullage

Means the quantity which the contents of a bottle lack to make it full.

Ultra Vires

Beyond the powers of.

Usance

Period of currency of a bill drawn between two countries.

Underwriting

Means guaranteeing the sale of stocks. Those who become insurers by signing are "underwriters" also.

Unified Stock

Refers to several loans at varying rates of interest amalgamated into one at a uniform and fixed rate of interest.

Waiver

The action of a person who gives up certain of his rights in a contract.

Watering Stock

This denotes creation of new capital in order to make good some depreciation in assets representing previous capital. It is not meant for any genuine extension of business or operations. It very often means increase of nominal capital without any cash receipts. It is created out of fictitious profits.

Without Prejudice

This is a phrase used by a party to a dispute when he makes an offer intending to bind him only in case of a satisfactory settlement.

Writing Off or Down

To reduce the value of an asset.

Writing Up

This is an operation in accounting whereby the book value of an asset is increased to show an increase in its real value.

Window-Dressing

A term commonly used to indicate that banks are calling in loans to be repaid in order to make their cash balances appear large in periodical statements.

Wager Policy

One in which the insured has no insurable interest in the object insured.

York-Antwerp Rules

The marine insurance underwriters framed certain rules by a conference at Antwerp for adjustment of marine losses.

Zollverein

The Union of the various German States in order to enable them to act as one in their commercial and trade dealings.

APPENDIX II

COMMERCIAL ABBREVIATIONS

| | | | |
|----------|-----|-----|-----------------------|
| @ | ... | ... | At. |
| A/c | ... | ... | Account. |
| A/C | ... | ... | Account Current. |
| A/d | ... | ... | After Date. |
| A/D | ... | ... | Acknowledgment Due. |
| Advt. | ... | ... | Advertisement. |
| Ad. Val. | ... | ... | Ad. Valorem. |
| A/o | ... | ... | Account of. |
| App. | ... | ... | Appendix. |
| Approx. | ... | ... | Approximate. |
| A/S | ... | ... | Account Sale. |
| Asst. | ... | ... | Assistant. |
| Av. | ... | ... | Average. |
| Bal. | ... | ... | Balance. |
| B/C | ... | ... | Bill for Collection. |
| B/E | ... | ... | Bill of Exchange. |
| B. C. R. | ... | ... | Bill Collection Rate. |
| B/L | ... | ... | Bill of Lading. |
| B. O. | ... | ... | Branch Office. |
| B/O | ... | ... | Brought Over. |
| B/P | ... | ... | Bill Payable. |
| B/R | ... | ... | Bill Receivable. |
| B. S. | ... | ... | Balance Sheet. |
| Bx. | ... | ... | Box. |
| C. A. | ... | ... | Chartered Accountant. |
| C/A | ... | ... | Credit Account. |
| C/a | ... | ... | Current Account. |
| C. B. | ... | ... | Cash Book. |
| C/C | ... | ... | Cash Credit. |
| C. D. | ... | ... | Cum (with) Dividend. |
| c/d | ... | ... | Carried down. |
| C. & F. | ... | ... | Cost and Freight. |

| | | | |
|---------------|-----|-----|--|
| C. f. | ... | ... | Cash and Freight. |
| C/f | ... | ... | Carried Forward. |
| C. I. F. | ... | ... | Cost, Insurance and Freight. |
| c. i. f. | ... | ... | Cost, Freight and Insurance. |
| chq. | ... | ... | Cheque. |
| C. i. f. & c. | ... | ... | Cost, insurance, freight and commission. |
| C. i. f. & i. | ... | ... | Cost, Insurance, Freight and Interest. |
| C. N. | ... | ... | Credit Note. |
| C/o. | ... | ... | Care of. |
| Co. | ... | ... | Company. |
| C. O. D. | ... | ... | Cash On Delivery. |
| Com. | ... | ... | Commission. |
| Cum. D. | ... | ... | With dividend. |
| C. W. O. | ... | ... | Cash with Order. |
| Cwt. | ... | ... | Hundredweight. |

| | | | |
|------------|-----|-----|------------------------------|
| D/A. | ... | ... | Deposit Account. |
| D/a. | ... | ... | Days After Acceptance. |
| D/A. | ... | ... | Document Against Acceptance. |
| D/B. | ... | ... | Day Book. |
| D/D | ... | ... | Demand Draft. |
| Def. | ... | ... | Deferred. |
| Del. Cred. | ... | ... | Del Credere. |
| Dept. | ... | ... | Department. |
| D/F. | ... | ... | Dead Freight. |
| Diff. | ... | ... | Difference. |
| Dft. | ... | ... | Draft. |
| Dis. | ... | ... | Discount. |
| Div. | ... | ... | Dividend. |
| D. L. O. | ... | ... | Dead Letter Office. |
| D/N. | ... | ... | Debit Note. |
| D/O. | ... | ... | Delivery Order. |
| Do. | ... | ... | Ditto (The Same). |
| Doz. | ... | ... | Dozen. |
| D/P. | ... | ... | Documents Against Payment. |
| Dr. | ... | ... | Debtor. |
| D/R. | ... | ... | Deposit Receipt. |
| d. w. | ... | ... | Delivery. |
| e.g. | ... | ... | For Example. |

| | |
|-------------------------|------------------------------------|
| E/I. ... | ... Endorsement Irregular. |
| E. & O. E. ... | ... Errors and Omissions Excepted. |
| Encl. ... | ... Enclosure. |
| Ent. ... | ... Entered. |
| Etc. ... | ... Et cetera (and other things). |
| Ex. ... | ... Exchange. |
| Ex. D. ... | ... Ex. (Without) Dividend. |
| Ex. Int. ... | ... Ex. Interest. |
| F. A. A. ... | ... Free of All Average. |
| F. A. S. ... | ... Free Alongside Ship. |
| F.C.C. or F.C. & S. ... | ... Free of Capture and Seizure. |
| F. C. S. ... | ... Free of Capture. |
| F. D. ... | ... Free Docks. |
| F. G. A. ... | ... Foreign General Average. |
| F. O. B. ... | ... Free On Board. |
| f. o. c. ... | ... Free of Charge. |
| F. O. R. ... | ... Free on Rail. |
| F. P. A. ... | ... Free of Particular Average. |
| Fr. ... | ... Freight. |
| ft. ... | ... Foot. |
| Fwd. ... | ... Forward. |
| G. A. ... | ... General Average. |
| G. M. T. ... | ... Greenwich Mean Time. |
| Govt. ... | ... Government. |
| G. P. O. ... | ... General Post Office. |
| Gr. Wt. ... | ... Gross Weight. |
| hf. ... | ... Half. |
| H. M. C. ... | ... His Majesty's Customs. |
| H. M. S. ... | ... His Majesty's Service. |
| H. O. ... | ... Head Office. |
| H. P. ... | ... Horse Power. |
| I. B. ... | ... Invoice Book. |
| Ib., Ibid. ... | ... Ibidem (In the same place). |
| I. B. I. ... | ... Invoice Book Inwards. |
| Id. ... | ... Idem (The same). |
| i.e. ... | ... Id est (That is). |

| | | | |
|---------------|-----|-----|-----------------------------|
| I/I | ... | ... | Endorsement Irregular. |
| Inter alia | ... | ... | Among other things. |
| Ins. or Ince. | ... | ... | Insurance. |
| Inst. | ... | ... | Instant. |
| Int. | ... | ... | Interest. |
| Inv. | ... | ... | Invoice. |
| I. O. U. | ... | ... | I Owe You. |
| Irr. | ... | ... | Irredeemable. |
| I. T. | ... | ... | Income Tax. |
| J/A | ... | ... | Joint Account. |
| Jr. or Jun. | ... | ... | Junior. |
| Kg. | ... | ... | Kilogramme. |
| £ | ... | ... | Pound. |
| L. | ... | ... | 50. |
| L/A | ... | ... | Letter of Authority. |
| lb. | ... | ... | Libra (Pound Weight). |
| L.B. | ... | ... | Letter Book. |
| L/P | ... | ... | Like Policy. |
| L/C | ... | ... | Letter of Credit. |
| £. s. d. | ... | ... | Pounds, shillings and pence |
| Ltd. or Ld. | ... | ... | Limited. |
| Max. | ... | ... | Maximum. |
| Mdme. | ... | ... | Madame. |
| Memo | ... | ... | Memorandum. |
| Messrs. | ... | ... | Gentlemen. |
| Mfg. | ... | ... | Manufacturing. |
| Min. | ... | ... | Minute. |
| M.O. | ... | ... | Money Order. |
| Mr. | ... | ... | Mister. |
| MSS. | ... | ... | Manuscripts. |
| N/a | ... | ... | Non-acceptance. |
| N. B. | ... | ... | Nota Bene (Take Note). |
| Nett | ... | ... | Netto (Lowest). |
| N. O. | ... | ... | No Order. |

| | | |
|-------------|-----|--------------------------------|
| No. | ... | ... Number. |
| Nom. . | ... | ... Nominal. |
| N. P. | ... | ... Notary Public. |
| O/A. | ... | ... Old Account. |
| O/a | ... | ... On Account of. |
| O. C. | ... | ... All Correct. |
| o/c. | ... | ... Overcharge. |
| O/D | ... | ... Overdraft. |
| o/d. | ... | ... On Demand. |
| O. H. M. S. | ... | ... On His Majesty's Service. |
| % | ... | ... Per Cent. |
| o/oo | ... | ... Per Thousand. |
| O. R. | ... | ... Owner's Risk. |
| Ord. | ... | ... Ordinary. |
| O. R. D. | ... | ... Owner's Risk of Damage. |
| O/S | ... | ... On Sale. |
| P | ... | ... Per. |
| P/A. | ... | ... Power of Attorney. |
| P/A. | ... | ... Per Annum. |
| Pat. | ... | ... Patent. |
| Payt. | ... | ... Payment. |
| P. B. | ... | ... Pass Book. |
| P/C. | ... | ... Price Current. |
| p.c. | ... | ... Per Cent. |
| P. C. B. | ... | ... Petty Cash Book. |
| Pd. | ... | ... Paid. |
| Per ann. | ... | ... Per Annum. |
| Per pro. | ... | ... On behalf of. |
| P/M | ... | ... Per Mensem. |
| p.m. | ... | ... Post Meridiem (afternoon). |
| P. P. | ... | ... Parcel Post |
| Pp. | ... | ... Pages. |
| Ppd. | ... | ... Prepaid. |
| Pref. | ... | ... Preference, Preferred. |
| Pro. | ... | ... For. |
| Pro. forma | ... | ... As a matter of Form. |
| Prima Facie | ... | ... At first sight of. |
| Pro. tem. | ... | ... For the time being. |

| | | |
|---------------|-----|--|
| Pro. and Con. | ... | For and Against. |
| Prox. | ... | Proximo. |
| P. T. O. | ... | Please Turn Over. |
| Qr. | ... | Quarter. |
| R. | ... | Rupee. |
| R/A. | ... | Refer to Acceptor. |
| R/D. | ... | Refer to Drawer. |
| Re or re | ... | With reference to. |
| Recd. | ... | Received. |
| Recpt. | ... | Receipt. |
| Ref. | ... | Reference. |
| Reg. | ... | Registered. |
| Retd. | ... | Returned. |
| R. M. S. | ... | Royal Mail Steamer or Royal Mail Service |
| R. P. | ... | Reply Paid. |
| R. R. | ... | Railway Receipt. |
| R. S. V. P. | ... | Reply if you please. |
| \$ | ... | Dollar. |
| Sched. | ... | Schedule. |
| Sd. | ... | Signed. |
| Sec. | ... | Section. |
| Sgd. | ... | Signed. |
| Sig. | ... | Signature. |
| Sine die | ... | Indefinitely. |
| S. L. | ... | Small Lot. |
| S/N | ... | Shipping Note. |
| S. P. | ... | Supra Protest. |
| Sq. | ... | Square. |
| SS., ss. | ... | Steamship. |
| Stet | ... | Let it stand. |
| T. B. | ... | Trial Balance. |
| Tele. | ... | Telephone. |
| T. M. O. | ... | Telegraphic Money Order. |
| T. T. | ... | Telegraphic Transfer. |
| tr. | ... | Tare |

| | | |
|----------|-----|------------------------------|
| J. K. | ... | ... United Kingdom. |
| Jlt. | ... | ... Ultimo. |
| U. S. A. | ... | ... United States of America |
| U/W. | ... | ... Underwriter. |
| V. | ... | ... 5. |
| v. | ... | ... Versus. |
| Via. | ... | ... By the way of. |
| Viz. | ... | ... Namely. |
| V. P. P. | ... | ... Value Payable Post. |
| Vs. | ... | ... Versus. |
| W. B. | ... | ... Way Bill. |
| Wt. | ... | ... Weight. |
| Whf. | ... | ... Wharf. |
| X. | ... | ... Ten. |
| x.d. | ... | ... Ex Dividend. |
| x. in. | ... | ... Ex Interest. |
| yd. | ... | ... Yard. |
| & | ... | ... And. |
| &c. | ... | ... And so on. |
| % | ... | ... By the Hundred. |
| 0/00 | ... | ... By the Thousand. |

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